UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2002

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from_____to_____

Commission file number 0-22418

ITRON, INC.

(Exact name of registrant as specified in its charter)

Washington	**91-1011792**
(State of Incorporation)	**(I.R.S. Employer Identification Number)**

2818 North Sullivan Road
Spokane, Washington 99216-1897
(509) 924-9900
(Address and telephone number of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Title of each class
Common stock, no par value
Preferred share purchase rights

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No ☐

As of June 28, 2002 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the shares of common stock held by non-affiliates of the registrant (based on the closing price for the common stock on the Nasdaq National Market on such date) was approximately $549,151,490.

As of February 28, 2003, there were outstanding 20,240,943 shares of the registrant's common stock, no par value, which is the only class of common stock of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

The information called for by Part II and Part III is incorporated by reference to the definitive Proxy Statement for the Annual Meeting of Shareholders of the Company to be held May 23, 2003.

PART I

ITEM 1: BUSINESS

OVERVIEW

General

Itron, Inc. is a leading technology provider and source of knowledge for collecting, analyzing, and applying critical data about electric, gas, and water usage to the global energy and water industries. Itron delivers value to its customers by providing industry-leading solutions for meter data collection, energy information management, demand side management and response, load forecasting and analysis consulting services and software, transmission and distribution system design and optimization, web-based workforce automation, commercial and industrial (C&I) customer care and residential energy management. Since our founding in 1977, we have brought advancements in hardware and software technology to our customers to enable a transition from manpower intensive activities, such as manual meter reading, to more automated and efficient systems that help optimize the delivery and use of energy and water.

Itron's solutions are installed at over 2,800 utilities worldwide, many of which utilize multiple Itron products and systems. Most of those utilities utilize our meter data collection and management systems to collect and process data from over 270 million electric, gas, and water meters. Of those, over 1,100 utilities use our radio and telephone based technologies to automatically collect, analyze, and apply meter data from 24 million electric, gas and water meters. Our enterprise software solutions for managing complex commercial and industrial meter data are used by approximately 600 utilities worldwide, including over 90% of the largest electric and gas utilities in the United States (U.S.) and Canada. Our software systems are also in use at four wholesale energy markets in the U.S. and Canada to provide critical data management, billing, and settlement systems for the power flowing into and out of those deregulating markets. Over 150 utilities have utilized our transmission and distribution software design tools, and our joint pole use and engineering services. Approximately 100 utilities have utilized our forecasting software and consulting services. Approximately 35 end-users and 25 utilities use our enterprise energy data management software. All of the 300 largest utilities in the U.S. and Canada are Itron customers and use at least one of our solutions—a strong position from which to expand our growing portfolio of products and services.

During 2002 and 2003, we expanded our solutions portfolio for optimizing the delivery and use of energy and water beyond meter data collection hardware and software solutions with several strategic acquisitions. These acquisitions broadened our capabilities and solutions offerings to include software tools and services for more efficient design of transmission and distribution infrastructure, field workforce automation, enterprise-wide energy management and forecasting to help our customers predict and plan for future needs more effectively. We believe our technology, industry knowledge and relationships give us a strong foothold for extending our leadership into additional systems that give utilities and their customers the knowledge to distribute and use electricity, gas and water more efficiently.

With penetration for meter reading automation in the U.S. and Canada at approximately 17%, a growing international market for our products and new products to serve our customers changing needs, Itron is well positioned for its future.

Energy and Water Industries Overview

For a number of years, the energy markets have undergone fundamental changes as governments in the U.S. and Canada have modified the regulation and structure of the electricity and gas markets to stimulate competition, increase reliable delivery and standardize certain aspects of the market. Transactions previously controlled by a single vertically integrated provider may now be handled by a variety of unrelated market

participants. The move from regulated industries towards a deregulated or partially deregulated market model has resulted in numerous challenges for utilities to run their businesses and serve their customers.

During the 1990's, electricity demand increased by 17% while supply infrastructure only increased by 2.3%. At the end of the decade, the Energy Information Association predicted that by 2020 electricity demand would increase by another 32%, requiring an estimated 1,310 new power plants to meet the demand. The Association also predicted that during the same period, demand for natural gas would increase by 50%, with a significant portion of that growth driven by new gas fueled electric generation facilities. Investments in electric and gas delivery infrastructure have been minimal over the past decade. New investments in transmission infrastructure decreased by $110 million per year over the past 20 years while transmission congestion increased by more than 200% from August of 1999 to 2000. It is estimated that transmission infrastructure additions must quadruple over the next decade just to maintain the current level of transmission adequacy.

Faced with these projections, over the past several years, new generation infrastructure was built to meet expected increases in demand. Due in large part to the economy and unusually mild weather, demand over the past few years did not rise as predicted and certain areas are now faced with generation supply that exceeds near term demand. As a result, a number of companies that built new generation infrastructure find themselves with under performing assets. As well, planned new generating facilities are being cancelled or delayed due to permitting, environmental issues, inability to raise capital and cost concerns.

In addition, natural gas prices rose substantially in the latter part of 2002, impacting natural gas distribution companies and the competitive position of new gas fired electric generation. Increased reliance on natural gas is subjecting the electricity market to volatility in both wholesale electricity and natural gas prices.

The uncertainty of supply and demand imbalances, credit and liquidity issues, aging and under performing infrastructure combined with increased rates and wholesale price volatility, have resulted in a renewed interest by utility commissions, political bodies and consumers in the management and conservation of energy and upgrading and adding of technology to the infrastructure.

As the need for more accurate energy usage data grows, organizations must reduce the amount of human intervention required to collect, validate, edit and manage that data. According to a META Group, Inc. research report, the energy market volatility experienced in the past several years has uncovered the lack of an integrated market structure, creating significant risk exposure for energy companies and requiring new systems and better processes for managing commodities along the energy value chain. Advanced systems for energy commodity management will need significantly extended functionality over traditional systems.

The water delivery infrastructure has undergone different but equally substantial changes with large water companies buying up or running small water companies and water shortages becoming critical around the world. Delivering adequate amounts of clean, drinkable water is a problem many cities are now addressing. Since 1970, the worldwide demand for water has tripled while the amount of potable water remains at 1% of the earth's total supply. In 2002, the U.S. experienced severe drought conditions over 45% of the country, with 57 rivers reaching record low levels in March of 2002. Measurement and recording of actual usage is now mission critical for many water utilities.

Industry trends give energy and water utilities, and delivery and generation companies, powerful incentives to return to their core business and focus on ways to reduce costs, streamline operations, enhance system reliability, improve safety for meter readers and customers, and provide superior customer service.

Itron's Vision and Strategy

Itron's vision is to optimize the delivery and use of energy and water. We intend to leverage our core competencies of providing products and services for advanced meter data collection and management, and our

history of strong customer relationships with electric, gas and water utilities, to provide additional knowledge based systems about how and when energy and water are used, and how to better manage the distribution of both.

With this strategic growth path in mind, our next-generation product development has been and is focused on data collection, communications equipment and software applications—all of which will give utilities the knowledge to distribute and use their valuable resources more efficiently. In addition to internal development, we also look outside of Itron for potential licensing, partnering and acquisition opportunities that will enable us to expand our solutions portfolio.

In March 2002, we acquired LineSoft Corporation (LineSoft), which moved us into the optimization of delivery systems, with software tools and services that enable energy delivery providers to design more cost and operationally efficient transmission and distribution infrastructure, and as well, to rebuild existing transmission and distribution infrastructure.

In October 2002, we acquired Regional Economic Research, Inc. (RER), an energy forecasting, consulting and analysis company. With this acquisition, Itron moved into the world of helping utilities and other market participants forecast their future needs including load growth, new facilities requirements, customer reaction to proposed programs and rates, software for day ahead, and other predictive needs.

Also in October 2002, we acquired eMobile Data Corporation (eMobile), whose technology enables us to automate field workforce operations, providing cost savings and efficiency for utilities. A fully integrated field workforce management solution will enable workers to manage a variety of route-based work orders while in the field as well as receive dispatchable work orders that can be managed while in a particular geographic area.

In March 2003, we acquired Silicon Energy Corporation (Silicon Energy), a provider of enterprise energy software solutions (see discussion in the Subsequent Event section).

Our vision is to leverage the strengths of the acquisitions with our data collection technologies, and industry and customer relationships to continue to enhance our portfolio of technology solutions for optimizing the delivery and use of energy and water.

Market Opportunities

Meter Data Collection Systems and Services

We estimate there are approximately 130 million electric meters, 70 million gas meters, and 70 million water meters in the U.S. and Canada. Automated Meter Reading (AMR) technology is in use on approximately 46 million, or 17%, of these meters. We estimate that there are another 900 million to 1.2 billion meters outside of the U.S. and Canada with minimal AMR deployments. We have established ourselves as a leading supplier of AMR systems having shipped just over 23.6 million AMR meter modules to utilities in the U.S. and Canada, and approximately 600,000 to utilities elsewhere around the world as of December 31, 2002. In total, over 1,100 utilities have installed our AMR technology. With many utilities returning to a back to basics strategy, business fundamentals including cost reductions, improved reliability, enhanced workforce efficiency and enhanced customer connections are of increasing importance. Automation technology helps enable utilities to meet these goals.

Our MV-90 commercial and industrial (C&I) meter data collection and analysis software is used by approximately 600 utilities throughout the world including more than 90% of the major electric and gas utilities in the U.S. and Canada. At the end of 2002, Microsoft discontinued support of certain technology components that are used by some versions of MV-90. This could result in future upgrade requirements for our MV-90 customers. As the cost of energy increases and interest in energy management and control increases, we expect timely and open access to energy usage information collected by MV-90 to become increasingly important. This

will enable energy providers and their customers to have the information and knowledge they need to make decisions on how to most efficiently and cost effectively use energy.

Workforce Automation

Electric, gas and water utilities have a number of workforces that perform operations in the field. In 2002, we acquired eMobile, a provider of wireless, web-based mobile workforce automation and dispatch management software solutions. Many of the economic and other pressures that drive automation of meter reading also result in the requirement for more immediate access to information between the office and the field. eMobile software tools allow utility field workers to access via the web the information they need to make decisions, eliminate costly paperwork, and work more effectively on operations such as service turn-ons/turn-offs, gas leak detection, credit and collections, meter services and trouble calls. Additionally, solutions are planned for tools related to planning, constructing and maintaining other infrastructure assets. While a number of utilities have solutions in place for one or more of their workforce crews, we believe the need to increase operational efficiency will drive further consolidation and automation of these crews.

Transmission and Distribution Products and Services

Significant amounts are spent annually on building, maintaining and upgrading transmission and distribution (T&D) systems. Electrical Power Research Institute and Cambridge Energy Research Associates reports indicate that approximately $10 billion is spent each year on the construction and maintenance of T&D facilities. In March 2002, we acquired LineSoft, a provider of software solutions and engineering consulting services that enable energy delivery providers to design more cost and operationally efficient transmission and distribution infrastructure, and as well, to rebuild existing transmission and distribution infrastructure. These solutions are now referred to as Itron's Transmission and Distribution Solutions (TDS) product group.

There are a number of geographic areas that lack adequate transmission system capacity to move electricity from the generation facilities to the distribution systems. This has been one of the causes of increased congestion and voltage reductions in the Northeast region of the U.S. To support the increase in energy demand, new transmission system infrastructure must be built and existing infrastructure needs to be upgraded. Efficiently designing, upgrading and optimizing the transmission and distribution system can improve reliability and safety, while at the same time minimizing capital investments. Given the current state of transmission systems, with supply and demand imbalances and transmission congestion in many parts of the country, we believe there are significant opportunities over the next five years for the TDS suite of products.

TDS also provides software and services to optimize the design, upgrade and maintenance of the distribution infrastructure. Third party attachment to existing distribution poles requires the utility to perform field and engineering analysis for their poles. We provide joint use services which help pole owners track third party attachments to their existing distribution poles, determine what can be added to them, whether or not the poles are in compliance with existing codes and safety regulations, and whether they are being used most effectively.

With capital resource and credit constraints in the marketplace, the extent to which transmission and distribution companies can better predict load requirements will enable them to more efficiently design and operate reliable systems at the least possible cost. In 2002, we also acquired RER, a leading provider of energy forecasting consulting and analysis. As volatility in wholesale energy prices continues and congestion and bottlenecks in transmission infrastructure increase, we believe there will be a growing desire for generation, transmission and distribution companies to increase the accuracy of their energy purchases and system operations. Forecasting tools and services enable these improvements. We believe our forecasting and analysis tools can be utilized by delivery companies to optimally design and operate their systems, increase system reliability and minimize risk.

While the 2001 energy crisis in California, and all of its impacts, have slowed decisions related to opening the wholesale markets in certain areas of the U.S., the Federal Energy Reliability Council (FERC) is proposing a Standard Market Design (SMD) that would provide a set of operating standards for market participants to follow. As this work continues, we believe there will be opportunities in this market as additional regional grids are established and new requirements for load data collection, management, forecasting, settlements and billing arise. As well, we believe new transmission construction and rebuild of existing facilities will grow as decisions in this area come to pass.

Itron Products and Solutions

Overview

Itron has a broad portfolio of solutions for collecting and communicating data from and throughout complex utility networks and creating information that has high value to suppliers, distributors and end-users of electricity, natural gas and water.

Our meter reading solutions integrate a broad array of meter modules, private and public radio and telephone-based communications systems, and data management storage and delivery applications. Our solutions support electric, gas and water service. Itron's integrated approach provides our customers with the flexibility needed to apply a cost-effective solution to each of their situations—rural, suburban, urban, residential, commercial, and industrial.

Our meter reading automation technologies are designed to accommodate the inevitability of change so that our customers can select solutions that meet their needs today while also laying the foundation for more advanced solutions to meet their future goals and objectives. Our radio-based solutions encompass handheld, mobile and network reading technology options. Because the same radio-based meter modules can be used with any of these solutions, our technologies facilitate the migration from one level of systems automation to another by eliminating the need to replace the meter endpoint. Our telephone-based solutions offer an economically attractive alternative for low density or selective deployment situations.

We have developed software solutions that integrate, store, manage and apply information from diverse data collection systems and technologies. This allows for the deployment of various collection technologies within a service territory, tailored to the economic and functional considerations of different portions of the territory. Itron also provides software solutions that take collected load data and enable customized billing and settlement, internet-based presentment and information exchange. Itron software solutions are integrated with the widest array of utility billing systems in the industry, with our communication protocols, in many respects, representing the de facto industry standard. In addition, Itron has one of the largest project management organizations in the industry.

Traditionally, many of our customers have deployed our technology primarily on the basis of reducing costs and improving the efficiency of their meter reading applications. While this remains a critical component of Itron's value proposition, our products, systems and solutions can provide a wide range of benefits to our customers that go far beyond meter reading and billing. Our customers are finding that Itron's technology and services can be an integral component of their operational and strategic objectives of reducing costs, improving customer service, delivering real process improvement, and successfully evolving their businesses.

Automatic Meter Reading (AMR) Systems and Products

Our AMR product line primarily involves the use of radio and telephone communications technology to collect and transmit meter data along with a host of software solutions for billing and settlement, data storage and retrieval, internet data presentment, load profiling and forecasting, and numerous other applications for meter data. The Company's radio-based AMR solutions encompass Handheld AMR, Mobile AMR and Network AMR.

Due to the geographic features and varying population density of a utility's service territory, generally no single meter reading solution is technologically or economically suited to all parts of the utility's service territory. Our AMR applications are intended to provide flexibility ranging from selective installation for high cost-to-read meters or geographically dispersed meters requiring advanced metering functionality, to full implementation of an AMR system covering a large portion of a utility's service area. In a deregulated marketplace, target marketing of specific features are desirable. We provide technology that can be selectively deployed to targeted end-use consumers. This flexibility helps our customers achieve economic and operational benefits from their initial investments in our AMR systems, while enabling migration to more comprehensive AMR solutions in the future as the marketplace requires.

Meter Modules: Our encoder, receiver, transmitter (ERT) meter modules serve as the data collection endpoint for Itron's fully integrated portfolio of radio-based data collection solutions. ERTs are radio-based modules that fit in or on electric, gas or water meters. The ERTs encode consumption and tamper information from the meters and communicate the data via radio to Itron's handheld, mobile and network radio-based data collection systems. ERTs can be retrofitted to existing meters or installed on new meters. Electric ERTs are typically installed under the glass of electric meters and are powered by the electricity running through the meter. Gas and water ERTs are usually attached to the meters and are powered by long-life batteries. During 2002, Itron partnered with two companies to develop meter module solutions for the solid-state meter market. In these situations our AMR technology is integrated into solid-state meters.

We also offer a separate line of meter modules for use outside of the U.S. and Canada. The primary differences between the meter modules used in the U.S. and Canada and in international markets are the radio frequency band in which they operate and the physical configuration of the module.

Handheld AMR: Handheld AMR uses radio-equipped handheld computers to read module-equipped electric, gas or water meters via radio without the need to access the meter or customer premises. A radio is integrated into a handheld computer. A software module in the meter reading system allows the handheld computer to determine which meters are read by manual efforts, by radio, or by an optical probe. As a meter reader walks a route, the radio-equipped handheld computer sends a radio wake-up signal to nearby radio-based meter modules that have been attached to electric, gas or water meters. The unit then receives meter reading and tamper data back from the meter modules. The same handheld computer can read any combination of properly equipped electric, gas and water meter modules.

Handheld AMR is normally used to read the 5-10 percent of accounts within the utility service territory that have high-cost or hazardous-to-read meters. The meters are typically located in a geographically dispersed environment, scattered throughout the service territory. These meters may be situated in a basement, in a back yard with a dangerous dog or locked gate, or with a customer who doesn't want the meter reader on the property.

Mobile AMR: Mobile AMR uses vehicles equipped with radio units to read ERT module-equipped electric, gas or water meters via radio without the need to access the meter. A radio transceiver in Itron's Mobile Collection System is installed in a utility vehicle. Route information is downloaded from the utility billing system and loaded into the radio transceiver. While driving along a meter reading route, the transceiver broadcasts a radio wake-up signal to all ERT meter modules within range and receives the ERT messages when they respond. As a result of this level of saturation, meter reading efficiency is dramatically improved.

Fixed Network 2.0: Launched in the fall of 2001, Itron's Fixed Network 2.0 is designed for a utility of any size or service environment to meet its advanced meter data collection objectives. Fixed Network 2.0 combines Itron's wireless RF technology for "last mile" communications between locally installed concentrator devices and meter endpoint devices with flexible public network communications capabilities for communication and data transfer between the concentrators and the host processor. Fixed Network 2.0 also features significantly improved data processing speeds and data management capability, as well as an open architecture design that allows for the interface and sharing of data with other utility applications such as outage management, distribution operations, and load research.

Commercial and Industrial (C&I) Network: Our C&I Network uses advanced, peer-to-peer radio communications to transport metering data from solid-state electric meters equipped with Itron External Meter Modems (EMMs). The data travels from the EMMs, through a system of radio relays, to a hub, which then routes the data using a single dedicated phone line to an Itron MV-90 host processor. There the data can be integrated with a variety of Itron and other software applications to provide a variety of billing, internet-based data presentment, load forecasting, settlements, marketing, load curtailment, energy management, load research and system engineering applications.

By using a system of radio frequency relays to communicate with these meters, the C&I Network eliminates the need for dedicated phone lines and the associated on-going phone charges to each meter. This makes the C&I Network a very economical network communication solution and enables energy providers to meet advanced data collection needs for a significantly broader segment of commercial and industrial energy customers.

In addition to our own C&I network, during 2002 Itron agreed to be the exclusive distributor of SmartSynch's SmartMeter System[SM], a wireless communications system that uses public networks and the internet for communicating with and collecting data from solid-state commercial and industrial electric meters.

The SmartMeter system is installed within a regular electric meter, resulting in efficient, low-cost installations and operations. The SmartMeter collects power quality and usage data, then compresses and encrypts the data for superior transmission economics and data/device security. As data is collected, it travels through wireless public communication networks to the company's TMS software, a unique application that seamlessly interfaces SmartMeters over advanced communication networks and the internet.

The SmartMeter System and the Itron C&I Network are complementary products—each has their own strengths and value depending on a utility's needs and objectives. With its drop-in capability and use of public wireless communications networks, the SmartMeter System is ideally suited and cost effective for selective deployments in areas with public wireless network coverage. Conversely, the system architecture and communications capabilities of the Itron C&I Network make it a cost effective solution for areas with groups of C&I meters, such as commercial and industrial parks, strip malls, downtown areas, or large commercial and industrial facilities with multiple metering points.

Commercial and Industrial Data Collection and Management Software

Commercial and industrial (C&I) meters have more sophisticated measurement capabilities than residential meters and collect much more data from the meter that must be conveyed back to energy providers and others. There are a wide variety of these meters by multiple meter vendors with no uniform communications standards.

Itron is a leading provider of software systems for collection, validation and editing of interval, register and event data from C&I meters. Our C&I software systems have extensive functionality to support data validation and data editing, data totalization, time-of-use pricing, load research, interactive graphics, billing and financial settlement, load forecasting and demand management, distribution operations and planning, marketing and customer care, and deregulated marketplace transactions. Our C&I software is very scalable and can be operated on a single PC as well as in wide-area network operating environments and distributed systems.

Handheld Systems and Products

We provide several models of handheld computers to meet the varying requirements of our customers. Each model is designed for use in harsh environments with standard text and graphics, back-lit displays, several memory sizes, multiple communications options, interface devices for electronic meters and easy to use keyboards that can be customized to the needs of our customers.

Workforce Automation Software

Field service operations represent an opportunity in which technologies such as wireless communications, the internet, and real-time data exchange can be applied to achieve operational efficiency, productivity and customer service. In 2002, we acquired eMobile. eMobile's flagship product is Service-Link, a web-based application for utility field service dispatching and mobile workforce management. By combining wireless communications with the internet and real-time information exchange, Service-Link enables utilities to streamline and automate many of the processes associated with field service, including turn-ons/turn-offs, gas leak detection, credit and collections, meter services and trouble calls. An important feature of Service-Link is its ability to be configured to meet many of the dispatch and data collection needs of utilities.

Service-Link enables information to be downloaded to mobile computers via regular dial-up docking station connections or via wireless communications. Service-Link supports numerous handheld devices ranging from a pocket PC/PDA to a full laptop computer. Service-Link uses the internet and a utility's local-area network or wide-area network to provide connections between a server, dispatcher workstations, customer service representatives, and the wireless network.

Residential Energy Management

In 2002, Itron introduced new products and conducted two market development trials for residential energy management solutions. Itron partnered with Lanthorn Technologies to facilitate the trials. The trials utilized an internet connection within the home to control a thermostat and monitor energy consumption. Lanthorn Technologies provided the utility and consumer interfaces and messaging application for monitoring consumption from Itron ERTs, and delivered thermostat control in near real-time. This technology may allow utilities to more accurately predict when to shift or reduce peak load while providing flexible tools to execute the load reduction event. The trial results also demonstrated that these tools could improve customer service and provide utilities with value added services they can offer to their customers.

Transmission and Distribution Software and Engineering Services

TDS provides software solutions and engineering consulting services for optimizing utility transmission and distribution systems. Specific TDS products include: (1) licensed software tools, typically sold on a seat license basis with follow-on software maintenance contracts for transmission line design, distribution line design and substation design, (2) software services that help utilities apply TDS tools, including data entry of utility codes and standards, and electrical and mechanical design standards, (3) engineering consulting services for transmission and distribution line design, and (4) joint use services, which include services and software tools, for surveying utility poles in preparation for attachment of cables and equipment of other carriers (cable companies, competitive local exchange carriers, etc.) and software tools for calculating a utility pole's capability for carrying wires and other devices, creating work orders to repair or make poles ready for additional attachments, and determining compliance with local codes and safety rules.

Consulting, Analysis and Forecasting Services and Software

Itron's software and consulting services are used by energy utilities, energy marketers, research organizations, industrial and corporate customers, and government agencies for load and price forecasting, analysis and planning, energy and resource economics assessment, utility program analysis, and market share research. Additionally, Itron's customers use our consulting services to evaluate and develop energy efficiency programs and assess renewable energy technology.

RER's solutions offer utilities and other market participants solutions that forecast needs including load growth, new facilities requirements, customer reaction to proposed programs and rates, software for day ahead and other predictive needs. Itron provides forecasting services and software products to improve system operation, scheduling, risk management and financial performance.

Customers, Sales and Distribution

We use a combination of direct and indirect sales channels. We primarily utilize direct sales, technical and administrative support teams to serve the needs of the large electric, gas and water utilities. At December 31, 2002, we had approximately 70 employees in direct sales and technical support. For other utilities, we conduct sales and technical support activities primarily through distributors, representative agencies and end-manufacturer representatives. At December 31, 2002, we had approximately 30 indirect channel representatives. We also sell electric and water meter modules through original equipment manufacturer arrangements with several major meter manufacturers, in which the manufacturers incorporate our meter modules at their own facilities into new meters and then offer them for sale. In addition to selling our own AMR modules, we license AMR technology to certain electric meter manufacturers who either manufacture their own AMR modules or who imbed our AMR technology into their meters. Cumulatively, as of December 31, 2002, over 1.5 million electric meters have Itron's AMR technology through these licensing arrangements. In addition to utilities, we also call on other energy market participants including regional transmission organizations, independent transmission companies, energy service providers and large energy users.

We address the market and serve our customers through four business units:

Electric: This business unit focuses on roughly 120 investor-owned utilities. The utilities are primarily located in the U.S. and Canada and represent large electric, and combination electric and gas utilities. In total, these customers represent approximately 102 million electric meters, 27 million gas meters and 4 million water meters.

Natural Gas: This business unit focuses on approximately 80 U.S. and Canadian investor-owned utilities, including subsidiaries, encompassing approximately 40 million gas meters and 3 million electric meters.

Water and Public Power: This business unit focuses on approximately 50,000 water utilities, over 2,000 municipalities providing electric, gas and/or water service and over 900 electric cooperative utilities in the U.S. and Canada. The largest utilities in this segment include over 130 water utilities and municipalities, representing approximately 29 million water meters, 4 million electric meters and 1 million gas meters.

International: This business unit focuses on sales of products, systems and services outside of the U.S. and Canada. We estimate that outside of the U.S. and Canada, there are approximately 900 million to 1.2 billion meters. We have a significant handheld meter reading market share with utilities in Japan, Korea, Australia, and parts of Europe. Interest in AMR systems and technology varies widely from country to country and overall is at a very early penetration level.

Marketing

Marketing activities include market intelligence, marketing communications, customer relationship management, and regulatory and legislative affairs. Our marketing efforts focus on Company and product brand awareness and recognition principally through an integrated marketing communications approach including trade shows, symposiums, brochures and collateral, published papers, the Itron website, advertising, direct mail, electronic communications, newsletters, conferences, annual users forums, industry standards committee representation and regulatory support. We maintain communications with our customers through integrated marketing communication campaigns. Additionally, we are continuing to build and expand our customer relationship management system based upon Siebel software.

We attend and participate in several major industry conferences each year, which include the DistribuTECH Conference and the Automatic Meter Reading Association Conference. Our Annual Users Conferences offer an important opportunity for Itron and our customers to come together and share ideas about Itron products, industry happenings and customer needs.

Product Development

We have maintained our leadership position in part because of our commitment to developing new products and continued enhancement of existing products. Our next generation technology development is primarily focused on data collection, communications technologies and software applications. We also invest in expanding and upgrading new hardware and software platforms for handheld and automatic meter reading systems. We spent $36.8 million and $30.0 million on product development in 2002 and 2001, respectively. Over 50% of our 2002 product development dollars were spent developing future products.

Manufacturing

We manufacture meter modules and other communications technology products, as well as certain peripheral equipment. Our primary manufacturing objective is to participate in the design through concurrent engineering and produce cost effective, high quality meter modules and network components utilizing high volume production equipment and processes. We outsource the manufacturing of certain handheld systems and peripheral equipment, as well as other low volume AMR products, to a contract manufacturer in which we have a 30% ownership interest. The contract manufacturer leases approximately 30,000 square feet, or 21%, of our Spokane facility. In addition, most of our handheld systems products, telephone modules and international meter module products are manufactured for us by third parties.

Our primary manufacturing facility is located in Waseca, Minnesota. We currently have the capacity to produce approximately 6.4 million (combination of electric, gas and water) meter modules annually on a three-shift basis. We are currently running at approximately 70% capacity in total, however, capacity for individual products varies throughout the year depending on current demand. Itron is committed to pursuing annual outside quotes for the production of its meter modules to ensure that its manufacturing is cost competitive and to maintain a base of contract manufacturers that are familiar with the products and capable of producing them.

We have installed extensive automated testing equipment in our manufacturing facility to provide quality control and process repeatability. Our testing includes both visual inspection and automated testing of the technical parameters established for each of our products. Our quality control equipment also includes a sophisticated information system that collects data from testing equipment and provides extensive reports and analysis of such data. This information system permits us to promptly identify potential problems or weaknesses in our manufacturing processes. During 2003, we intend to upgrade our quality system to ISO 9000-2000 and receive ISO 14000 certification for environmental compliance.

Employees

As of December 31, 2002, we employed 1,434 full-time regular and contract manufacturing persons, 30% in manufacturing, 37% in product development, 4% in marketing and IT, 10% in service and support, 10% in finance and corporate administration and 9% in our business units.

Of these employees, 94.2% were located in the U.S., 1.8% in Canada, 1.7% in Australia and 2.3% in Europe. None of our domestic employees are represented by a labor union. We have not experienced any work stoppages and consider our employee relations to be healthy.

Competition

Although we are the industry leader in supplying energy and water data collection products, systems and services to the utility industry in the U.S. and Canada, and in many other areas around the world, we face competition from a variety of companies in each of the markets we serve. The large market potential for meter reading automation has led communications, electronics and other companies to begin developing and marketing

various systems. Some of these companies currently compete, and in the future others may compete with our products, systems, and services. These competitors can be expected to offer a variety of technologies and communications approaches, as well as meter reading, installation and other services to utilities and other industry participants. There are several market participants that may be both competitors and partners. We expect competition in the AMR market to increase as current competitors and new market entrants introduce competitive products.

As of December 31, 2002, we had a greater than 50% market share of AMR meter modules shipped to date in the U.S. and Canada. The next largest competitor is Schlumberger, which we estimate represents roughly 25% of the installed market. There are also a few system providers, radio-based and power-line-carrier-based, most of whom are narrowly focused, that have recently been awarded systems at utilities, including companies such as DCSI, Datamatic, Hexagram, Hunt, Invensys, Neptune, Nexus, Ramar, and Trace.

We face competition in energy information management from a number of companies such as ABB, ICF Kaiser, Lodestar, and Siemens. In competitive wholesale markets in California and Ontario, Canada, we have partnered with ABB and Cap Gemini to offer a total integrated system solution. We may continue to partner with some of these companies, as well as other consulting and system integration companies, to address future competitive energy markets with Itron systems.

We believe that as we expand our offerings towards optimizing energy delivery there are several very large suppliers of equipment, services or technology to the utility industry that have developed or could develop competitive products for this market, such as ABB, Invensys and Siemens. Similarly, we believe that as we move towards offering systems and solutions for end-use customers, we will face competition from billing and in-building controls companies. We hope to develop cooperative relationships with several of these companies to jointly develop and offer solutions to the market.

In the market for utility field workforce automation, we expect to compete with companies such as DB Microware, MDSI and Utility Partners.

For our transmission systems products we compete with Power Line Systems and others. In the distribution software business, we compete with Cook-Hurlbert and GE/Smallworld. Additionally, Roussey and Enghouse offer underground distribution products. In the engineering consulting business the primary competitors are Black and Veatch, Power Engineers and Sargent and Lundy along with other regional players.

Intellectual Property

We own or license numerous U.S., Canadian and foreign patents and have filed various patent applications. These patents cover a range of technologies for meter reading, portable handheld computer and AMR related technologies. We also rely on copyrights to protect our proprietary software and documentation. We have registered trademarks for most of our major product lines in the U.S. and many foreign countries. The Company is currently involved in a legal action related to a patent dispute. As a result, the Company has redesigned its current products that were found by a jury to infringe on a third party patent. We believe that our continued success will be based on continued innovation, market knowledge, technical and marketing capabilities, existing relationships with utilities and a fundamental commitment to customer service excellence.

FCC Regulation and Allocation of Radio Frequencies

Certain of our products made for use in the U.S. use radio frequencies, the access to and use of which are regulated by the FCC pursuant to the Communications Act of 1934, as amended. In general, a radio station license issued by the FCC is required to operate a radio transmitter. The FCC issues these licenses for a fixed term, and the licenses must be periodically renewed. Because of interference constraints, the FCC can generally issue only a limited number of radio station licenses for a particular frequency band in any one area.

Although radio licenses generally are required for radio stations, Part 15 of the FCC's rules permit certain low-power radio devices (Part 15 devices) to operate on an unlicensed basis. Part 15 devices are designed for use on frequencies used by others. These other users may include licensed users, which have priority over Part 15 users. Part 15 devices are not permitted to cause harmful interference to licensed users and must be designed to accept interference from licensed radio devices. Our radio meter modules are Part 15 devices that transmit information back to either the handheld, mobile or network AMR reading devices in the 910-920 MHz band pursuant to these rules.

On May 24, 2002, the FCC adopted the service rules governing the use of the 1427-1432 MHz band. The Company was originally granted a nationwide license to operate in the band during 1994. Among other things, the new rules reserve the upper 2.5 MHz of the band for general telemetry, including utility telemetry, and provide that non-exclusive licenses will be issued in accordance with Part 90 rules and the recommendations of frequency coordinators. Telemetry licensees must comply with power limits and out-of-band emission requirements that are designed to avoid interference with the use of the lower part of the band by hospitals. Although the FCC will issue licenses on a non-exclusive basis, and it is possible that the demand for spectrum will exceed supply, we believe that the Company will continue to have access to spectrum in the 1429.5-1432 MHz band under favorable conditions.

Backlog of Orders

We enter into short-term and long-term contracts to supply hardware, software and services to our customers. Long-term (multi-year or annual) contracts are subject to rescheduling or cancellation by our customers. Bookings and backlog can be highly variable from period to period primarily due to the nature and timing of large orders.

Backlog is not a complete measure of our business and pertains only to manufactured products and associated software and services, such as installation services. Software only sales tend to be book and ship business, so that at the end of an accounting period little or no software backlog exists for software only orders. Bookings for a reported period represent the revenue value of contracts signed during a specified period except for those related to annual maintenance, joint use (utility pole surveys) and engineering services. Instead, revenues from these contracts are included in bookings during the quarter in which the revenues are earned. At December 31, 2002, the estimated value of these contracts approximates $45 million on an annual basis.

Total backlog represents the revenue value of undelivered contractual orders, excluding annual maintenance, joint use and engineering services contracts. Twelve-month backlog represents the estimated portion of total backlog that will be earned over the next twelve months.

Information for bookings and backlog by quarter for 2002 and 2001 is as follows ($ in millions):

		Quarter Ended	
Quarter Ended	Total Bookings	Total Backlog	12-month Backlog
December 31, 2002	$ 61	$ 197	$ 100
September 30, 2002	87	200	109
June 30, 2002	45	179	95
March 31, 2002	38	202	112
December 31, 2001	63	203	115
September 30, 2001	61	195	98
June 30, 2001	45	184	79
March 31, 2001	75	188	71

Note that beginning total backlog, plus current quarter bookings, less current quarter sales and service revenues will not always equal ending total backlog due to miscellaneous contract adjustments and other factors.

Environmental Regulations

In the ordinary course of our business, we use metals, solvents, and similar materials that are stored on site. The waste created by use of these materials is transported off-site on a regular basis by a state-registered waste hauler. Itron has made a concerted effort to eliminate the use of mercury and other hazardous materials in its products. Itron complies with state and federal regulations regarding storage, emissions, and the disposal of waste.

SEC Filings

The Company's SEC filings are available under the Investor Relations section of Itron's website at *www.itron.com*. The SEC filings are available free of charge on the website as soon as practicable after they are filed with or furnished to the SEC.

Trademarks

Itron, Linesoft, and ERT, are registered trademarks of Itron, Inc. MV-90, Service-Link, and "Knowledge to Shape Your Future" are trademarks of Itron, Inc.

Certain Risk Factors

Itron is dependent on the utility industry, which has experienced volatility:

We derive substantially all of our revenues from sales of products and services to the utility industry. Purchases of our products are, to a substantial extent, deferrable in the event that utilities reduce capital expenditures as a result of mergers and acquisitions, pending or unfavorable regulatory decisions, poor revenues due to weather conditions, rising interest rates or general economic downturns, among other factors. We have experienced variability of operating results, on both an annual and a quarterly basis as a result of these factors.

The utility industry, both domestic and foreign, is generally characterized by long budgeting, purchasing and regulatory process cycles that can take up to several years to complete. Our utility customers typically issue requests for quotes and proposals, establish evaluation committees, review different technical options with vendors, analyze performance and cost/benefit justifications and perform a regulatory review, in addition to applying the normal budget approval process within a utility.

In the past, we have experienced considerable delays in purchase decisions by utilities that have become parties to merger or acquisition transactions. Often such purchase decisions are put on hold indefinitely when merger negotiations begin. If we were to experience a high amount of industry merger and acquisition activity, our revenues could be materially adversely affected. In the past, the unbundling of metering and certain other services from the basic transport aspects of electricity distribution resulted in significant delays in purchasing decisions as those regulations were being analyzed, which had a material adverse impact on our business. If we were to experience future state or other regulatory decisions that cause a delay in purchasing decisions, changes in our customer base, or requirements to modify our products and services (or develop new products or services) to meet the needs of market participants, our results could be materially and adversely affected.

Itron's acquisitions of and investments in third parties carry risks:

Acquisitions and investments may involve numerous risks such as the diversion of senior management's attention from the core business, unsuccessful integration of the acquired entity's operations, technologies and products, lack of market acceptance of new services and technologies, or a shift in industry dynamics that negatively impacts the forecasted demand of the new products. Impairment of an investment, or goodwill and intangible assets may result if these risks materialize. In addition, acquisitions may involve the assumption of

obligations or significant one-time write-offs. In order to finance any future acquisitions, we may need to raise additional funds through public or private financings.

Itron utilizes financing from third parties:

Itron may utilize financing for outsourcing contracts, business expansion efforts or other capital requirements. The risks associated with indebtedness include the commitment of a portion of our cash flow from operations to payments on the indebtedness, limited flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, and interest rate fluctuations (additionally refer to the Subsequent Event section).

Itron's quarterly results may fluctuate substantially:

While we were profitable in fiscal years 2002, 2001 and 2000, we experienced operating losses in some quarters during those periods and in periods prior to 2000. There can be no assurance that we will maintain consistent profitability on a quarterly or annual basis. We have experienced variability of quarterly results and believe our quarterly results will continue to fluctuate as a result of factors such as costs related to acquisitions, legal activity, changes in internal structure, size and timing of significant customer orders, FCC or other governmental actions, the gain or loss of significant customers, timing and levels of new product developments, shifts in product or sales channel mix, increased competition and pricing pressure, and the general economic conditions affecting enterprise spending for the energy industry. In addition, financial results may fluctuate due to new accounting standards or changes to existing accounting standards affecting the timing of revenue and expense recognition.

Itron depends on its ability to develop new products:

We have made, and expect to continue to make, substantial investments in technology development. Our future success will depend, in part, on our ability to continue to design and manufacture new competitive products and to enhance our existing products. This product development will require continued investment in order to maintain our market position. There can be no assurance that unforeseen problems will not occur with respect to the development, performance or market acceptance of our technologies or products. Although we have rigorous product lifecycle processes, there can be no assurance that we will meet our product development schedules. There can be no assurance that we will have market acceptance of our new products and solutions. International market acceptance for AMR systems varies by country based on such factors as the regulatory and business environment, labor costs and other economic conditions.

Itron has a limited number of large customer contracts:

In some years, our revenues are concentrated with a limited number of customers, the identity of which changes over time. From time to time, we are dependent on large, multi-year contracts that are subject to cancellation or rescheduling by our customers. Cancellation or postponement of one or more of these contracts could have a material adverse effect on the Company.

Itron is facing increasing competition:

We face competitive pressures from a variety of companies in each of the markets we serve. Some of our present and potential future competitors have or may have substantially greater financial, marketing, technical or manufacturing resources, and in some cases, greater name recognition and experience. Our competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote greater resources to the development, promotion and sale of their products and services than we can. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties that increase their ability to address the needs of

our prospective customers. It is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. If we cannot compete successfully against current or future competitors, it could have a material adverse effect on our business, financial condition, results of operations and cash flow.

Itron is affected by availability and regulation of radio spectrum:

A significant portion of our products use radio spectrum and in the U.S. are subject to regulation by the FCC. Licenses for radio frequencies must be obtained and periodically renewed. There can be no assurance that any license granted to us or our customers will be renewed on acceptable terms, if at all, or that the FCC will keep in place rules for our frequency bands that are compatible with our business. In the past, the FCC has adopted changes to the requirements for equipment using radio spectrum, and it is possible that the FCC or Congress will adopt additional changes in the future.

We have committed, and will continue to commit, significant resources to the development of products that use particular radio frequencies. Action by the FCC could require modifications to our products. If we are unable to modify our products to meet such requirements, we could experience delays in completing such modifications, or the cost of such modifications could have a material adverse effect on our future financial condition and results of operations.

Our radio-based products currently employ both licensed and unlicensed radio frequencies. There must be sufficient radio spectrum allocated by the FCC for our intended uses. As to the licensed frequencies, there is some risk that there may be insufficient available frequencies in some markets to sustain our planned operations. The unlicensed frequencies are available for a wide variety of uses and are not entitled to protection from interference by other users. In the event that the unlicensed frequencies become unacceptably crowded or restrictive, and no additional frequencies are allocated, our business could be materially adversely affected.

We are also subject to regulatory requirements in international markets that vary by country. To the extent we wish to introduce products designed for use in the U.S. or another country into a new market, such products may require significant modification or redesign in order to meet frequency requirements and power specifications. Further, in some countries, limitations on frequency availability or the cost of making necessary modifications may preclude us from selling our products.

A number of key personnel are critical to the success of Itron's business:

Our success depends in large part upon our ability to retain highly qualified technical and management personnel, the loss of one or more of whom could have a material adverse effect on our business. Our success depends upon our ability to continue to attract and retain highly qualified personnel in all disciplines.

Itron may face liability associated with the use of products on which patent ownership or other intellectual property rights are claimed:

Itron is or may be subject to claims or inquiries regarding our alleged unauthorized use of a third party's intellectual property. An adverse outcome in any intellectual property litigation could subject us to significant liabilities to third parties, require us to license technology from others, require us to cease marketing or using certain products, or require us to redesign certain products, any of which could negatively affect our business, financial condition and operating results. If we are required to seek licenses under patents or proprietary rights of others, we may not be able to acquire these licenses on acceptable terms, if at all. In addition, the cost of responding to an intellectual property infringement claim, in terms of legal fees and expenses and the diversion of management resources, whether or not the claim is valid, could harm our business, financial condition and operating results.

Itron may be unable to adequately protect its intellectual property:

While we believe that our patents, trademarks and other intellectual property have significant value, it is uncertain that these patents and trademarks, or any patents or trademarks issued in the future, will provide meaningful competitive advantages. There can be no assurance that our patents or pending applications will not be challenged, invalidated or circumvented by competitors or that rights granted there under will provide meaningful proprietary protection. Detecting infringement and misappropriation of intellectual property can be difficult, time consuming, and costly. If we detect infringement or misappropriation, litigation could be ultimately unsuccessful.

Itron depends on certain key vendors:

Certain of our products, subassemblies and system components are procured from a single source, and others are procured only from limited sources. Our reliance on such components or on these limited or sole source vendors or subcontractors involves certain risks, including the possibility of shortages, obsolescence and reduced control over delivery schedules, manufacturing capability, quality and costs.

Itron may face warranty exposure:

Itron generally provides product warranties for varying lengths of time. In anticipation of such expenses, we establish allowances for the estimated liability associated with product warranties. However, these warranty allowances may be inadequate, and we may incur additional warranty expenses in the future with respect to new or established products.

Itron is subject to international business uncertainties:

International sales and operations may be subject to risks such as the imposition of government controls, political instability, restrictions on the export of critical technology, currency exchange rate fluctuations, availability of qualified third party financing, generally longer collection periods, trade restrictions, changes in tariffs, difficulties in staffing and managing international operations, and potential insolvency of international dealers. In addition, the laws of certain countries do not protect our products to the same extent as do the laws of the U.S. There can be no assurance that these factors will not have a material adverse effect on our future international sales and, consequently, on our business, financial condition, and results of operations.

Itron has anti-takeover provisions in place that make it more difficult for a third party to acquire the Company:

We have the authority to issue 10 million shares of preferred stock in one or more series, and to fix the powers, designations, preferences, and relative, participating, optional or other rights thereof without any further vote or action by our shareholders. The issuance of preferred stock could dilute the voting power of holders of common stock and could have the effect of delaying or preventing a change in control of the Company. Certain provisions of our Restated Articles of Incorporation, Restated Bylaws, shareholder rights plan and employee benefit plans, as well as Washington state law, may operate in a manner that could discourage or render more difficult a takeover of the Company or the removal of management, or may limit the price certain investors may be willing to pay in the future for our shares of common stock.

Itron is subject to regulatory compliance:

We are subject to various governmental regulations related to occupational safety and health, labor, and wage practices. We are subject to various government regulations regarding the performance of certain engineering services. We believe that we are currently in material compliance with such regulations. Failure to comply with current or future regulations could result in the imposition of substantial fines, suspension of production, alteration of our production processes, cessation of operations, or other actions which could materially and adversely affect our business, financial condition, and results of operations.

Itron may incur liability arising from the use of hazardous materials:

In the ordinary course of our business, we use metals, solvents, and similar materials, which are stored on site. The waste created by use of these materials is transported off-site on a regular basis by a state-registered waste hauler. We are subject to federal, state, and local regulations relating to the storage, discharge, handling, emission, generation, manufacture, and disposal of toxic or other hazardous substances used to produce our products. Failure to comply with current or future environmental regulations could result in the imposition of substantial fines, suspension of production, alteration of our production processes, cessation of operations, or other actions which could materially and adversely affect our business, financial condition, and results of operations. Although we are not aware of any material claim or investigation with respect to these activities, there can be no assurance that such a claim will not arise, or that the cost of complying with governmental regulations in the future, will not have a material adverse effect on us.

Itron's stock price may be subject to volatility:

The market price of our common stock has experienced fluctuations since it commenced trading in 1993 and is likely to fluctuate significantly in the future. Our stock price can fluctuate due to a number of factors such as general market conditions, the economy, stock sales by executive officers, variations in quarterly operating results, announcements about us or our competitors, announcements of significant contracts, acquisitions, strategic partnerships or capital commitments, the introduction of new technology or products by us or our competitors, conditions and trends in the energy industry, comments regarding us or the industry by analysts, and changes in earnings estimates.

Executive Officers of the Registrant

Set forth below are the names, ages, titles with the Company, and principal occupations and employment for the last five years of the persons serving as executive officers of Itron as of March 14, 2003.

Name	Age	Position
LeRoy D. Nosbaum	56	Chairman and Chief Executive Officer
Robert D. Neilson	46	President and Chief Operating Officer
William L. Brown	57	Vice President, Transmission and Distribution (T&D) Solutions Group
Michael A. Cantelme	49	Vice President, Client Services Group
Russell N. Fairbanks, Jr.	59	Vice President and General Counsel
Steven M. Helmbrecht	40	Vice President and General Manager, International
John W. Hengesh, Jr.	48	Vice President and General Manager, Natural Gas and Water & Public Power
Randi L. Neilson	40	Vice President, Marketing and Information Technology
David G. Remington	61	Vice President and Chief Financial Officer
Jemima G. Scarpelli	44	Vice President, Investor Relations and Corporate Communications
Douglas L. Staker	43	Vice President, Mobile and Network Telemetry Systems Group
Russell E. Vanos	46	Vice President and General Manager, Electric
Robert W. Whitney	44	Vice President, Manufacturing and Supply Chain Management
John M. Woolard	37	Vice President and General Manager, End User Solutions and Energy Management Solutions Group

LeRoy Nosbaum was named Chairman of the Board in May 2002 and Chief Executive Officer in March 2000. Since joining Itron in 1996, LeRoy has held positions as Chief Operating Officer and Vice President with responsibilities over manufacturing, product development, operations and marketing.

Rob Neilson was appointed as a Director of Itron in February 2002, named President in October 2001 and Chief Operating Officer in March 2000. Rob joined Itron in 1983 and has held several positions including Vice President, Strategy and Business Development, as well as Vice President, Marketing.

Bill Brown was named Vice President, T&D Solutions Group in June 2002. Bill joined Itron in 1997 as Vice President, Network Systems Operations, and was named Vice President of Competitive Resources in January 2000.

Mike Cantelme joined Itron in July 2000 as Vice President, Client Services Group. From 1998 to 2000 Mike worked with Teligent, L.L.C. as Region Vice President of the Southern Region. Mike served in a number of positions including sales and customer installations while at Teligent.

Russ Fairbanks joined Itron in January 2000 as Vice President and General Counsel. From 1997 to 1999 Russ served as Vice President and General Counsel for ASM America, Inc., a manufacturer of chemical vapor deposition equipment used to make integrated circuits.

Steve Helmbrecht joined Itron in September 2002 as Vice President and General Manager, International business unit. Prior to joining Itron, Steve was Chief Financial Officer of LineSoft Corporation beginning in 2000. Prior to joining LineSoft, Steve spent seven years with SS&C Technologies, Inc., a software company focused on portfolio management and accounting systems for institutional investors.

John Hengesh, Jr. is Vice President and General Manager, Natural Gas and Water & Public Power business units. Since joining Itron in 1984, John has served in a number of positions covering sales, marketing, hardware and software development, manufacturing, quality, and customer and field support.

Randi Neilson was named Vice President, Marketing in January 2000. Randi assumed responsibility for Information Technology (IT) in July 2002. Randi joined Itron in 1990 and has served in a number of positions most recently as Director of Solutions and Product Marketing.

Dave Remington joined Itron in 1996 as Vice President and Chief Financial Officer. Before joining Itron, Dave was an investment banker specializing in structured asset-based financings including power and energy related transactions.

Mima Scarpelli was named Vice President, Investor Relations and Corporate Communications in January 2000. Mima joined Itron in 1985 and has held numerous positions in the finance and accounting area including Treasurer and Controller.

Doug Staker was named Vice President, Mobile and Network Telemetry Systems Group in January 2002 and is the Director of Product Marketing. Doug joined Itron in 1989, and has held a number of positions within the Company, including Product Manager for Electric ERT Products and Product Manager for Fixed Network Systems.

Russ Vanos returned to Itron as Vice President and General Manager, Electric business unit in January 2001. Russ first joined Itron in 1980 and has held numerous positions, including Vice President, Utility and Energy Services Solutions from 1997 until January 2000. During 2000, Russ was Vice President of Sales at LineSoft.

Bob Whitney was named Vice President, Manufacturing and Supply Chain Management in April 2000. Bob joined Itron in 1992 and has held numerous positions such as Director of Manufacturing for Itron’s Minnesota operations.

John Woolard was named Vice President and General Manager, End User Solutions business unit and Energy Management Solutions Group in March 2003. John joined the Company upon Itron's acquisition of Silicon Energy Corporation. John co-founded Silicon Energy and was their President, Chief Executive Officer, and Chairman of the Board since December 1997.

ITEM 2: PROPERTIES

Our headquarters consist of approximately 141,000 square feet of owned space in Spokane, Washington. We sublease approximately 30,000 square feet of our headquarters to a subcontract manufacturer in which we have a 30% ownership interest. In Raleigh, North Carolina, we lease approximately 77,000 square feet. In Waseca, Minnesota, we lease 106,000 square feet of manufacturing and engineering space. In association with the 2002 acquisitions of LineSoft, RER, and eMobile, we added approximately 72,000 square feet of leased facilities in the U.S. and Canada. In addition, we have approximately 33,000 square feet of leased space in various cities in North America for sales and service. Our International business unit leases sales offices in the United Kingdom, France and Australia. The above facilities are in good condition and we believe our current manufacturing and other properties will be sufficient to support our operations for the foreseeable future.

ITEM 3: LEGAL PROCEEDINGS

Benghiat Patent Litigation

On April 3, 1999, the Company served Ralph Benghiat, an individual, with a complaint seeking a declaratory judgment in the U.S. District Court for the District of Minnesota (Civil Case No. 99-cv-501) that a patent owned by Benghiat (patent no. 5,757,456, the '456 patent) is invalid and not infringed by Itron's handheld meter reading devices. On April 23, 1999 Benghiat filed a counterclaim alleging patent infringement by the same devices. Both lawsuits were filed in the U.S. District Court for the District of Minnesota. The case went to trial before a jury on December 9, 2002. On December 20, 2002 the jury returned a verdict and found that Itron's manual entry handheld meter reading devices sold in the U.S. since April 1993 infringed the '456 patent. The jury awarded Benghiat damages in an amount of $7.4 million dollars, which represents a royalty of approximately 5% on revenues from infringing products sold from 1993 to the date of the verdict. Itron accrued that amount in 2002. The jury also found that Itron's infringement was willful. As such, Benghiat has asked the court to treble the damages and award him attorney's fees. Benghiat may seek to enjoin the sale of infringing products. Although Itron continues to believe that its products do not infringe the '456 patent, it has nevertheless redesigned its current products that were found to infringe by the jury and has received an opinion of its outside patent counsel that the redesigned products do not infringe the '456 patent. The redesign has changed the functionality of the products, which may impact future customer acceptance. It is difficult to predict whether this will have a material impact on future revenues or net income. Revenues related to the infringing products were approximately $20 million in 2002. The court has not rendered judgment based on the jury's verdict and will not do so until a number of post-trial motions by both parties have been made and ruled on by the court. Final judgment is not expected to be entered until April 2003 or later. Itron is also evaluating grounds for appeal. There can be no assurance, however, that Itron will prevail on appeal.

The Company is not involved in any other material legal proceedings.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of shareholders of Itron during the fourth quarter of 2002.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information for Common Stock

Itron's common stock is traded on the NASDAQ National Market. The following table reflects the range of high and low common stock sales prices for the four quarters of 2002 and 2001 as reported by the NASDAQ National Market.

	2002		2001	
	High	Low	High	Low
First Quarter	$ 32.30	$ 22.25	$ 12.50	$ 3.50
Second Quarter	$ 36.50	$ 19.99	$ 18.98	$ 10.25
Third Quarter	$ 26.98	$ 12.53	$ 23.84	$ 14.25
Fourth Quarter	$ 25.90	$ 16.12	$ 34.21	$ 20.13

Holders

At February 28, 2003 there were approximately 501 holders of record of our Common Stock.

Dividends

We have never declared or paid cash dividends. We intend to retain future earnings for the development of our business and do not anticipate paying cash dividends in the foreseeable future.

Securities Authorized for Issuance Under Equity Compensation Plans

The section entitled "Equity Compensation Plan Information" appearing in the 2002 Proxy Statement sets forth certain information required by Item 201(d) of Regulation S-K and is incorporated herein by reference.

Unregistered Equity Security Sales

None.

ITEM 6: SELECTED CONSOLIDATED FINANCIAL INFORMATION

	Year Ended December 31,				
	2002	2001	2000	1999	1998
	($ in thousands, except per share data)				
Statement of Operations Data					
Revenues					
Sales	$241,158	$183,425	$141,899	$147,128	$187,051
Service	43,684	42,130	38,042	46,284	54,351
Total revenues	284,842	225,555	179,941	193,412	241,402
Cost of revenues	152,573	127,696	109,092	202,640	167,276
Gross profit (loss)	132,269	97,859	70,849	(9,228)	74,126
Operating expenses					
Sales and marketing	30,603	24,952	19,902	24,536	23,343
Product development	36,780	30,000	21,331	26,764	33,493
General and administrative	26,653	16,780	18,389	14,205	13,482
Amortization of intangibles	2,356	1,486	1,762	1,986	2,261
Restructurings	3,135	(1,219)	(185)	16,686	3,930
Litigation accrual	7,400	—	—	—	—
In-process research and development	7,200	—	—	—	—
Total operating expenses	114,127	71,999	61,199	84,177	76,509
Operating income (loss)	18,142	25,860	9,650	(93,405)	(2,383)
Other income (expense)					
Equity in affiliates	126	(616)	1,069	(600)	(1,154)
Interest income	1,187	1,410	1,110	—	—
Interest expense	(2,061)	(5,112)	(5,313)	(6,585)	(6,399)
Other income (expense)	1,465	(176)	2,022	5,954	(109)
Total other income (expense)	717	(4,494)	(1,112)	(1,231)	(7,662)
Income (loss) before income taxes and cumulative effect of change in accounting principle	18,859	21,366	8,538	(94,636)	(10,045)
Income tax (provision) benefit	(10,176)	(7,916)	(3,270)	26,040	3,820
Net income (loss) before cumulative effect of change in accounting principle	8,683	13,450	5,268	(68,596)	(6,225)
Cumulative effect of change in accounting principle, net of income taxes of $1,581	—	—	(2,562)	—	—
Net income (loss)	$ 8,683	$ 13,450	$ 2,706	$ (68,596)	$ (6,225)
Earnings Per Share					
Basic					
Income (loss) before cumulative effect	$ 0.45	$ 0.86	$ 0.35	$ (4.62)	$ (0.42)
Cumulative effect	—	—	(0.17)	—	—
Basic net income (loss) per share	$ 0.45	$ 0.86	$ 0.18	$ (4.62)	$ (0.42)
Diluted					
Income (loss) before cumulative effect	$ 0.41	$ 0.75	$ 0.34	$ (4.62)	$ (0.42)
Cumulative effect	—	—	(0.17)	—	—
Diluted net income (loss) per share	$ 0.41	$ 0.75	$ 0.18	$ (4.62)	$ (0.42)
Weighted average number of shares outstanding					
Basic	19,262	15,639	15,180	14,851	14,668
Diluted	21,380	18,834	15,385	14,851	14,668
Balance Sheet Data					
Working capital	$ 51,036	$ 66,646	$ 45,340	$ 44,261	$ 54,230
Total assets	247,246	202,691	177,231	192,079	247,755
Total debt	5,453	64,484	65,446	74,998	92,197
Shareholders' equity	161,601	76,052	52,092	47,526	115,023

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with "Selected Consolidated Financial Information" and the Consolidated Financial Statements and Notes thereto.

Certain Forward-Looking Statements

The following discussion of our financial condition and results of operations contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. When included in this discussion, the words "expects," "intends," "anticipates," "believes," "plans," "projects," "estimates," "future" and similar expressions are intended to identify forward-looking statements. However, these words are not the exclusive means of identifying such statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Such statements are inherently subject to a variety of risks and uncertainties that could cause our actual results to differ materially from those reflected in such forward-looking statements. Such risks and uncertainties include, among others, the rate of customer demand for our products, forecast future revenues and costs on long-term contracts, changes in law and regulation (including FCC licensing actions), changes in the utility regulatory environment, delays or difficulties in introducing new products and acceptance of those products, increased competition and various other matters, many of which are beyond our control. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Form 10-K. The Company expressly disclaims any obligation or undertaking to update or revise any forward-looking statement contained herein to reflect any change on the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. For a more complete description of these and other risks, see "Certain Risk Factors."

Overview

We currently derive the majority of our revenues from sales of products and services to utilities. However, our business may increasingly consist of sales to other energy and water industry participants such as energy service providers, end-user customers, wholesale power market participants and others.

Critical Accounting Policies

Revenue Recognition: Sales consist of hardware, software license fees, custom software development, field and project management services, and engineering, consulting and installation services. Service revenues include post-sale maintenance support and outsourcing services. Outsourcing services encompass installation, operation and maintenance of meter reading systems to provide meter information to a customer for billing and management purposes. Outsourcing services can be provided for systems we own as well as those owned by our customers.

The Company recognizes revenues from hardware at the time of shipment, receipt, or, if applicable, upon completion of customer acceptance provisions. Revenues for software licenses, custom software development, field and project management services, engineering and consulting, installation, outsourcing and maintenance services are recognized when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the sales price is fixed or determinable, and (4) collectibility is reasonably assured. For software arrangements with multiple elements, revenue is recognized dependent upon whether vendor-specific objective evidence (VSOE) of fair value exists for each of the elements.

Under outsourcing arrangements, revenue is recognized as services are provided. Hardware and software post-contract customer support fees are recognized over the life of the related service contracts.

Inventories: Inventories are stated at the lower of cost or market using the first-in, first-out method. Cost includes raw materials and labor, plus applied direct and indirect costs. Inventory is subject to rapidly changing technologies. There can be no assurance that technological advances will not cause some or all of our inventory to become obsolete or uneconomical.

Warranty: The Company offers standard warranty terms on most of our product sales of between one and three years. A provision for estimated warranty costs is recorded at the time of sale and periodically adjusted to reflect actual experience. The long-term warranty provision covers estimated standard warranty cost for the second and third years of customer use and future expected costs of testing and replacement of radio meter module batteries and fixed network equipment. Management continually evaluates the sufficiency of warranty provisions and makes adjustments when necessary. Actual warranty costs may fluctuate and may be different than amounts accrued.

Contingencies: The Company is subject to various legal proceedings and claims of which the outcomes are subject to significant uncertainty. An estimated loss from a contingency is accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. The Company evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact the Company's financial position or its results of operations. The Company has been party to an ongoing legal dispute in regards to whether certain of its products infringe upon a third party patent. The Company has accrued $7.4 million in the fourth quarter of 2002 in connection with the patent litigation. The judge's future rulings could have a material impact on the Company's financial statements. Because the jury found the Company's infringement was willful, the court may treble the damages award and assess attorney's fees against the Company. Based on other motions before the court, the court may also reduce the damages award. Final judgment is not expected to be entered until April 2003 or later. The Company is also evaluating grounds for appeal.

Results of Operations

Effective January 1, 2002, we realigned our organization from six business units, comprised of both customer segments and products, to four business units focused on the customer segments that we serve. Results from the former Client Services and Energy Information Systems (EIS) segments, which are now product groups, have been reclassified into our Electric, Natural Gas, Water & Public Power, and International business units for 2001 and 2000. Business unit results throughout this report have been reclassified to reflect our new 2002 organization.

Revenues for each business unit consist of hardware, software license fees, custom software development, field and project management services, and engineering, consulting and installation services. Service revenues include post-sale maintenance support and outsourcing services. Outsourcing services encompass installation, operation and maintenance of meter reading systems to provide meter information to a customer for billing and management purposes. Outsourcing services can be provided for systems we own as well as those owned by our customers. Inter-segment revenues are immaterial. Segment cost of sales are based on standard costs which include materials, direct labor and an overhead allocation based on projected production for the year. Variances from standard costs are included in Corporate cost of sales and are not allocated to the business units.

Revenues and Gross Margins

Total Company Revenues and Gross Margins

Revenues for 2002 were $284.8 million compared with $225.6 million in 2001 and $179.9 million in 2000. The higher revenues in 2002 principally reflect increased hardware deliveries to existing domestic customers in the form of electric, gas and water AMR modules. Domestic revenues increased 35% over 2001. The three

companies acquired in 2002 contributed a combined $11.2 million in revenue. Revenues declined in 2002 in our international markets and from our C&I meter data collection and analysis software licenses. Revenue growth in 2001 of 25% over 2000 was also primarily driven by increased hardware sales.

One customer represented 12% and 15% of total Company revenues in 2002 and 2001, respectively. Sales to this customer will continue through the fourth quarter of 2003 but will continue to decrease as a percentage of total Company revenues. Our customer concentration in revenue was about the same—in 2002, the top ten customers accounted for 45% of revenues, compared with 40% in 2001.

Gross margins improved year-over-year, growing to 46% in 2002 compared with 43% in 2001 and 39% in 2000. Improved domestic margins from 2000 to 2002 resulted from a combination of factors, including improved manufacturing efficiencies from higher production volumes and changes in product mix, specific cost reduction efforts, lower general market prices for electronic components and other supply-chain management initiatives. Service gross margins decreased in 2002 primarily due to a one-time increase in costs associated with a long-term service contract.

	Year Ended December 31,				
	2002	2001	Change 2002-2001	2000	Change 2001-2000
			($ in millions)		
Revenues					
Sales	$ 241.1	$ 183.5	31%	$ 141.9	29%
Service	43.7	42.1	4	38.0	11
Total revenues	$ 284.8	$ 225.6	26%	$ 179.9	25%

	Year Ended December 31,				
	2002	2001	Change 2002-2001	2000	Change 2001-2000
Gross Margin					
Sales	49%	45%	4%	41%	4%
Service	30	36	(6)	34	2
Total gross margin	46%	43%	3%	39%	4%

Segment Revenues and Gross Margins

The following tables and discussion highlights significant changes in trends or components of revenues and gross margin for each segment.

	Year Ended December 31,				
	2002	2001	Change 2002-2001	2000	Change 2001-2000
			($ in millions)		
Segment Revenues					
Electric	$ 136.8	$ 99.7	37%	$ 62.0	61%
Natural Gas	50.3	35.7	41	39.8	(10)
Water & Public Power	84.1	65.1	29	60.1	8
International	13.6	25.1	(46)	18.0	39
Total revenues	$ 284.8	$ 225.6	26%	$ 179.9	25%

	Year Ended December 31,				
	2002	2001	Change 2002-2001	2000	Change 2001-2000
Segment Gross Margin					
Electric	46%	42%	4%	44%	(2)%
Natural Gas	57	54	3	56	(2)
Water & Public Power	43	44	(1)	44	—
International	37	34	3	43	(9)
Corporate(1)	—	(1)	1	(7)	6
Total gross margin	46%	43%	3%	39%	4%

(1) Corporate is included so that total segment gross margin reconciles to total gross margin above.

Electric: Net revenues in 2002 increased by $37.1 million, or 37%, compared with 2001 primarily as a result of increased hardware shipments. Also contributing to the increase in revenues were the three acquisitions in 2002. Excluding the revenues from these acquisitions, revenue growth was 26% compared to 2001. In 2002, one customer represented 24% of the Electric business unit revenues and 12% of total Company revenues. In 2001, this customer represented 34% of the Electric business unit revenues and 15% of total Company revenues. Sales to this customer will continue through the fourth quarter of 2003 but will continue to decrease as a percentage of Electric and total Company revenues. The improved Electric segment margins resulted primarily from lower standard costs caused by higher production volumes and other manufacturing efficiencies, as well as a shift in the mix of products and services.

Electric segment revenues in 2001 were 61% higher than 2000 revenues and represented 44% of 2001 total revenues. The majority of this increase was due to continued shipments on the multi-year contract with the one significant customer. This customer represented 6% of the Electric business unit revenues and 2% of total Company revenues in 2000. Gross margin decreased 2% in 2001 compared to 2000 due to changes in the mix of customers and products.

Natural Gas: Net revenues increased by $14.6 million, or 41%, compared with 2001 primarily due to increased hardware shipments. In 2002, one customer represented 20% of the Natural Gas business unit revenues and 4% of total Company revenues. Sales to this customer will continue through early 2003 under the current contractual obligation but will continue to decrease as a percentage of Natural Gas and total Company revenues. No revenues were generated from this customer in 2001. The improved Natural Gas segment margins resulted primarily from lower hardware costs caused by higher production volumes and other manufacturing efficiencies. Natural Gas segment revenues declined 10% in 2001 compared with 2000, primarily due to the completion of large contracts in 2000 that were not replaced by similar business during 2001.

Water and Public Power: Net revenues increased by $19 million, or 29%, compared with 2001 as a result of increased hardware shipments and installation services. Sales through meter manufacturers and other indirect sales channels grew 31% in 2002. While Water and Public Power also benefited from higher hardware production volumes and manufacturing efficiencies, overall 2002 gross margins declined slightly due to increased lower margin installation sales as well as higher cost of service for our maintenance contracts.

Water and Public Power segment revenues were $5.0 million higher in 2001 compared with 2000 due to the initial deployment of modules for a multi-year AMR system for a new customer, the expansion of systems for existing customers, and increased shipments to meter manufacturers.

International: Net revenues decreased by $11.5 million, or 46%, compared with 2001. This decrease is primarily due to an $8.9 million handheld meter reading system sale made to a customer in Japan in 2001, which was not replaced with a comparable size order in 2002. During the fourth quarter of 2002, we announced plans to restructure the European operations to improve the long-term profitability and efficiency of International

operations. While we anticipate improved profitability of International operations in 2003, significant benefits from the restructuring efforts are not expected to be realized until after 2003. Margins were slightly higher in 2002 compared with 2001 due to a shift in product mix.

International segment revenues in 2001 increased 39%, or $7.1 million, over 2000 due to the significant handheld sale to a customer in Japan. Increased meter module sales in France and a large hardware installation of handheld sales in Australia in the second half of the year also contributed to 2001 International revenue growth. Gross margins decreased from 43% in 2000 to 34% in 2001, or 9%. The majority of this decrease was due to low margins on the large handheld shipments to Japan. In addition, we had more revenues from low margin AMR module shipments to customers in France in 2001 compared with 2000.

Corporate: The business units outlined above utilize standard costs, which include materials, direct labor and an overhead allocation, to record product cost of sales. Variances from standard costs are reported within Corporate cost of sales and are not allocated to the business units. Corporate costs of sales were comparable as a percentage of revenue in 2002 and 2001. The decrease in costs in 2001 compared with 2000 was primarily due to the combination of efficiencies gained through the consolidation of manufacturing facilities, higher than planned production volumes in 2001 and lower market prices on electronic components.

Operating Expenses

The following table details our total operating expenses in dollars and as a percent of revenues. Note that certain amounts in 2001 and 2000 have been reclassified to conform to the 2002 presentation.

	Year Ended December 31,					
	2002	% of Revenue	2001	% of Revenue	2000	% of Revenue
	($ in millions)					
Operating Expenses						
Sales and marketing	$ 30.6	10.7%	$ 25.0	11.1%	$ 19.9	11.1%
Product development	36.8	12.9	30.0	13.3	21.3	11.8
General and administrative	26.7	9.4	16.8	7.4	18.4	10.2
Amortization of intangibles	2.3	0.8	1.4	0.6	1.8	1.0
Restructurings	3.1	1.1	(1.2)	(0.5)	(0.2)	(0.1)
Litigation accrual	7.4	2.6	—	—	—	—
In-process research and development	7.2	2.5	—	—	—	—
Total operating expenses	$ 114.1	40.1%	$ 72.0	31.9%	$ 61.2	34.0%

Sales and marketing expenses increased $5.6 million in 2002 compared with 2001, but decreased slightly as a percentage of revenue. The increase was a result of additional product marketing, product management, and sales staffing primarily related to the companies acquired in 2002. The increase in 2001 compared to 2000 was primarily due to investments in marketing programs and systems, strategy and business development activities, and increased commissions due to higher sales.

Product development expenses increased $6.8 million in 2002 compared with 2001, however decreased slightly as a percentage of revenue. The increase was due to increased development spending related to acquisitions and increased staff levels. The increase of $8.7 million in 2001 compared with 2000 was driven by increased spending on next generation product development.

General and administrative expenses increased $9.9 million in 2002 compared with 2001, and 2.0% as a percent of revenue, due to increased information technology investments, legal fees, compensation, and staffing resources. In addition, $2.3 million of the increase resulted from the entities acquired in 2002. The decrease in 2001 over 2000 was primarily due to favorable negotiation of a new communications contract and reduced legal fees for patent and FCC matters.

Amortization of intangibles increased $900,000 in 2002 compared with 2001. Amortization increased as a result of the addition of $16.2 million in amortizable intangible assets from acquisitions completed in 2002. This was offset by the discontinuance of goodwill amortization in 2002 due to the implementation of SFAS No. 142 as of January 1, 2002. Goodwill amortization was $749,000 in 2001. The Company completed its initial impairment test of goodwill in the second quarter of 2002, and its annual impairment test in the fourth quarter of 2002, and concluded in both cases that goodwill was not impaired. We expect amortization expense to increase in 2003 as a result of a full year of amortization expense related to the 2002 acquisitions.

Restructuring expenses were $3.1 million in 2002 compared with a recovery of $1.2 million in 2001. In 2002, we expensed $3.1 million for planned costs related to the restructuring of our European operations. The restructuring plan will result in the closure of the Vienne, France office, a reduction in workforce, the consolidation of product development efforts into existing Company locations and the outsourcing of select production efforts in order to improve the overall profitability of our International operations. Restructuring activities are anticipated to be complete by mid-2003.

In January 2003, we announced plans to restructure our EIS product group in Raleigh, North Carolina. The restructure plan will result in an estimated charge of $2.0 to $2.5 million in 2003 related to workforce reductions.

Restructuring expenses in 2001 reflect a net credit as a result of reversals of charges in previous periods primarily due to sublease of office space under more favorable terms than originally anticipated.

Total operating expenses in 2002 increased $42.1 million compared with 2001. The 2002 expenses include three unusual expenses totaling $17.7 million: (1) a European restructure charge of $3.1 million, (2) a write-off of in-process research and development (IPR&D) related to the acquisition of LineSoft of $7.2 million, and (3) a litigation accrual related to the Benghiat patent suit of $7.4 million. Excluding these unusual items, operating expenses totaled $96.4 million, an increase of $24.4 million from 2001. However, the expenses as a percentage of revenue remained fairly consistent year to year. Approximately one third of the $24.4 million increase came from our 2002 acquisitions.

In-Process Research and Development (IPR&D)

During 2002, we recorded $7.2 million in charges for IPR&D related to the acquisition of LineSoft as follows:

	IPR&D	Estimated cost to complete technology	Discount rate applied to IPR&D	LineSoft's weighted average cost of capital
		($ in millions)		
LineSoft Corporation	$7.2	$3.3	25%	20%

At the time of acquisition, LineSoft had five IPR&D projects, each contributing from 3% to 64% of the total IPR&D value. These projects were new versions of existing software products currently being sold, but were not subject to capitalization because they had not yet reached technological feasibility and had no alternative future use. We expect to benefit from the IPR&D projects as products that contain in-process technology are marketed and sold to end-users.

Other Income (Expense)

The following table shows other income (expense) and percent change from the prior year.

	Year Ended December 31,				
	2002	2001	Change 2002-2001	2000	Change 2001-2000
			($ in millions)		
Equity in affiliates	$ 0.1	$ (0.6)	117%	$ 1.1	(155)%
Interest income	1.2	1.4	(14)	1.1	27
Interest expense	(2.1)	(5.1)	59	(5.3)	4
Other income (expense)	1.5	(0.2)	850	2.0	(110)
Total other income (expense)	$ 0.7	$ (4.5)	116%	$ (1.1)	(309)%

We had income related to equity in affiliates of $126,000 in 2002 compared with a loss of $616,000 in 2001. In 2001, we wrote-off approximately $850,000 of an investment in an affiliate. The loss from that write-off was partially offset with our share of income from other affiliates. The $1.1 million of equity in affiliates in 2000 resulted from increased sales of our water products by a distributor affiliate and a $150,000 net gain on the sale of our interest in another partially owned domestic affiliate.

In 2002, interest expense was $2.1 million compared with $5.1 million in 2001. The decrease in interest expense was primarily due to the conversion of convertible debt to equity and the early payoff of mortgage debt on the Company's Spokane facility.

Included in 2002 other income (expense) was an $841,000 pretax gain from the sale of our Raleigh, NC facility and a $200,000 pretax gain from the early payoff of the mortgage on our Spokane facility. Included in 2000 other income (expense) was a $1.6 million pretax gain on the early extinguishment of subordinated debt.

Income Taxes

The 2002 effective income tax rate was approximately 54% compared with 37% in 2001 and 38% in 2000. The increase over the prior years is primarily due to the non-deductible $7.2 million charge for in-process research and development (IPR&D). Excluding the impact of non-tax deductible IPR&D charges in 2002, the adjusted effective tax rate was 39%. Our effective income tax rate can vary from period to period because of fluctuations in foreign operating results, changes in the valuation allowances for deferred tax assets, new or revised tax legislation, and changes in the level of business performed in different tax jurisdictions.

Cumulative Effect of Change in Accounting Principle

During the fourth quarter of 2000, we implemented SEC Staff Accounting Bulletin No. 101 (SAB 101), which outlines the Staff's views on revenue recognition. As a result, we changed our revenue recognition for certain transactions related to customer acceptance, F.O.B. destination shipments, and outsourcing contracts under which we retain title to the related equipment. The implementation was accounted for as a cumulative change in accounting principle effective January 1, 2000.

Effective January 1, 2002, the Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 provides that goodwill should be tested for impairment annually at the reporting unit level rather than being amortized over a useful life. The Company completed its initial impairment test of goodwill in the second quarter of 2002, and its annual impairment test in the fourth quarter of 2002, and concluded in both cases that goodwill was not impaired.

Financial Condition

	Year Ended December 31,		
	2002	2001	2000
	($ in millions)		
Cash Flow Information			
Operating activities	$ 49.2	$ 32.3	$ 3.8
Investing activities	(23.3)	(38.0)	20.8
Financing activities	(13.9)	5.1	(4.9)
Net increase (decrease) in cash	$ 12.0	$ (0.6)	$ 19.7

Operating activities: We generated $49.2 million of cash from operations in 2002 compared with $32.3 million in 2001 and $3.8 million in 2000. Net income, adjusted for the change in noncash charges and credits, contributed $4.6 million to the $16.9 million increase in cash flow from operations from 2001 to 2002. Although 2002 net income declined $4.8 million compared with 2001, noncash charges to income increased $9.4 million. The primary reason for the increase in noncash charges was a $7.2 million charge for acquired in-process research and development associated with the LineSoft acquisition.

In addition, changes in operating assets and liabilities, net of effects of acquisitions, contributed $12.3 million to the 2001 to 2002 increase in operating cash flow. This was driven primarily by a $7.4 million litigation accrual recorded in the fourth quarter, and a $2.1 million restructuring liability related to our International business unit. The costs associated with the restructuring accrual are expected to be substantially disbursed by mid-2003. The amount and timing of the payment, if any, in connection with the litigation accrual is unknown at this time.

Investing activities: During 2002, we liquidated short-term investments to fund business acquisitions. Net proceeds from short-term investments were $22.1 million in 2002, compared with net purchases of $22.2 million in 2001. No short-term investment activity occurred in 2000. During 2002, a total of $42.9 million in cash was used for business acquisitions. No cash was used for acquisitions in 2001 or 2000. Approximately $10.5 million in cash was used for property, plant and equipment purchases in 2002 compared with $7.6 million in 2001 and $11.6 million in 2000.

In 2002, we reclassified $5.1 million from restricted cash for a collateralized letter of credit into cash as a result of a new credit agreement that did not require the restriction.

In 2000, we received $32.8 million, net of expenses, from the sale of our network system at Duquesne Light Company, which is reflected in investing activities. Similar activity did not occur in 2002 or 2001.

In connection with the purchase of LineSoft in March 2002, the Company assumed a pre-existing loan in the amount of $2.0 million to the former Chief Executive Officer of LineSoft by renewing and replacing it with a new non-recourse promissory note, secured with the Company's stock, in the same amount. The replacement note matures May 11, 2003, and bears interest at an annual rate of 6.0%. As of December 31, 2002, the loan balance was approximately $473,000.

Financing activities: During 2002, $12.6 million in cash was used to repurchase 807,900 shares of Itron's common stock compared with $1.9 million for 85,100 shares in 2001 and none in 2000. In 2002, $7.7 million was received from employee stock purchase plan purchases and stock option exercises during the year compared with $7.8 million in 2001 and $2.1 million in 2000. In 2002, we used $4.9 million for the early repayment of mortgage debt and approximately $3.5 million to repay lines of credit and long-term debt assumed in the three acquisitions.

Financing activities used $4.9 million in cash in 2000 mostly due to $3.6 million used to pay down short-term bank borrowings and $2.1 million for the repurchase of subordinated debt in the first quarter of 2000.

We have no off-balance sheet financing agreements.

Investments: In 2002, we invested just under $2.0 million in an early stage start-up firm that is developing internet-based energy monitoring and management software and services. The firm, Lanthorn Technologies, has not yet produced any significant revenue. The form of the investment is a secured convertible note with a term of five years. We may convert the note at any time into the common stock of the firm. If we had converted our note into equity at December 31, 2002, it would have been converted into 19% of the firm's common stock assuming that all granted stock options and other convertible debt of the firm were exercised or converted. We have also entered into a distribution and licensing agreement with the firm, which gives us non-exclusive distribution and licensing rights.

During 2001, we invested $500,000 in the common stock of an early stage metering services company. Later in 2001, we increased our investment by $350,000 in the form of senior, secured convertible debt. At the end of 2001, the company ceased its operations and we wrote-off the remaining amounts of our investment.

During 2000, we sold our low volume manufacturing operations and field service depot repair operations to a group of former employees, retaining a 30% equity interest in the form of convertible preferred stock. The company continues to manufacture low volume product and perform repair operations for us. The company's operations are profitable.

During 2002, we liquidated our 50% investment in a partnership with a utility. The partnership's purpose was to serve as a marketing vehicle for a defined territory comprised of and surrounding the utility's service territory. There was no gain or loss from the liquidation, which resulted in a cash distribution of approximately $1.2 million. During 2002 and 2001, there was little partnership activity.

During 2001, we made a $500,000 common stock investment in a startup company involved in developing gateway and other metering-related products, for which we received a 10% equity interest. The company has not yet established a history of consistent revenue, has not yet reached breakeven cash flow and is currently looking for additional funding.

During the year ended December 31, 2001, we loaned $2.0 million, in the form of a convertible note receivable, to eMobile which was developing a web based wireless workforce management tool. The note remains as an intercompany note and is eliminated during the Company's normal accounting consolidation of subsidiary operations.

Liquidity, Sources and Uses of Capital: At December 31, 2002, we had $32.6 million in cash and cash equivalents. During 2002, we utilized $42.9 million to complete the three acquisitions and $12.6 million to repurchase Company stock. We have historically funded our operations and growth with cash flow from operations, borrowings and sales of our stock. We are exposed to changes in interest rates on cash equivalents and short-term investments, which are rated A or better by Standard & Poor's or Moody's and which have market interest rates.

As of December 31, 2002, availability under our $35 million revolving line of credit was reduced by outstanding letters of credit of $15.0 million. We believe existing cash resources and available borrowings are adequate to meet our cash needs through 2003 (see discussion in Subsequent Event section regarding changes to our credit facility in connection with the acquisition of Silicon Energy).

During the second quarter of 2002, we redeemed all of our subordinated convertible debt totaling $53.3 million through the issuance of approximately 3.2 million shares of our common stock. There was a minimal cash impact as a result of this conversion.

We maintain performance and bid bonds for certain customers. The performance bonds usually cover the installation phase of a contract and may on occasion cover the operations and maintenance phase of outsourcing

contracts. Bonds in force were $40.3 million and $40.2 million at December 31, 2002 and 2001, respectively, some of which are guaranteed by standby letters of credit. The outstanding amounts of standby letters of credit were $15.0 and $11.6 million at December 31, 2002 and 2001, respectively. In addition, we guarantee lease payments for certain equipment leased by an affiliated company. In the event that the affiliate is unable to pay a monthly lease obligation, Itron would be required to make the payment. If Itron does not make the payment, the equipment would be returned to the lessor. The maximum future lease obligation of the guarantee at December 31, 2002 was $659,000. In the event that the equipment is not in working condition, Itron would be obligated to pay for the equipment to be returned to working condition. The lease and our guarantee terminate in 2006.

Working capital as of December 31, 2002 was $51.0 million compared with $66.6 million at December 31, 2001. The decrease in working capital is primarily due to an increase in current liabilities of $7.4 million related to the litigation accrual, a $2.1 million accrual related to restructuring activity, and the liquidation of previously held short-term investments to support acquisition activity.

The number of days outstanding for billed and unbilled accounts receivable was 62 and 69 days as of December 31, 2002 and 2001, respectively. Historically, the number of days outstanding ratio for the Company has been driven more by specific contract billing terms as compared to collection issues.

During the first quarter of 2002, we acquired LineSoft, a privately held company, for $43.5 million, including transaction expenses. The purchase price consisted of $21.7 million in cash and the issuance of 848,870 shares of Itron common stock. In addition, we are required to pay additional amounts to certain LineSoft shareholders of up to $13.5 million in the event that certain defined revenue targets in 2002, 2003 and/or 2004 are exceeded. 2002 revenues did not warrant an earnout payment. Any future earnout payments will be paid half in cash and half in our common stock.

On October 1, 2002, we completed the acquisition of Regional Economic Research, Inc., a company specializing in energy consulting, analysis, and forecasting services and software for $14.3 million in cash. The Company is required to pay additional amounts to certain RER shareholders of up to $4.0 million if certain defined revenue targets in 2003 and 2004 are exceeded. The form of any earnout payments, payable in cash and/or Company common stock, will be based solely upon Company discretion.

Also on October 1, 2002, we acquired eMobile Data Corporation, a provider of web-based workforce management solutions for utilities, with cash payments totaling $6.9 million and $2.5 million of non-cash consideration. Non-cash consideration primarily included the elimination of a $2.0 million note payable to Itron and a $500,000 royalty payable to Itron.

We expect to continue to expand our operations and grow our business through a combination of internal new product development, licensing technology from or to others, distribution agreements, partnership arrangements and acquisitions of technology or other companies. We expect these additional activities to be funded from existing cash, cash flow from operations, borrowings, and the issuance of common stock or other securities. We believe existing sources of liquidity will be sufficient to fund our existing operations for the foreseeable future, but offer no assurances. However, our liquidity requirements could be affected by our dependence on the stability of the energy industry, competitive pressures, international risks, intellectual property claims, as well as other factors described under “Certain Risk Factors” within Item 1 and “Qualitative and Quantitative Disclosures About Market Risk” within Item 7A, included in our Form 10-K.

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, *Accounting for Obligations Associated with the Retirement of Long-Lived Assets*. The provisions of SFAS No. 143 address accounting and reporting for obligations associated with the retirement of tangible long-lived assets. This

statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The adoption of SFAS No. 143 has not had a significant impact on the financial position or results of operations of the Company.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which supercedes FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of.* SFAS No. 144 requires that long-lived assets be measured at the lower of carrying amount or fair-value less cost to sell, whether reported in continuing operations or in discontinued operations, to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001. The adoption of SFAS No. 144 has not had a significant impact on the financial position or results of operations of the Company, relative to its existing assets.

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.* SFAS No. 145 covers a variety of technical issues that will not have a material effect on our financial statements except for the rescission of SFAS No. 4, which required extinguishment of debt be treated as an extraordinary item. This rescission of SFAS No. 4 was effective for fiscal years beginning after May 15, 2002, with early adoption encouraged. The Company adopted SFAS No. 145 effective January 1, 2002 and reflected its $200,000 gain on extinguishment of debt in Other income (expense), as opposed to classifying it as an extraordinary item as was previously required. Prior years gains on the early extinguishment of debt have been reclassified to comply with SFAS No. 145.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities.* The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 may have an impact on the timing of the recognition of costs associated with future restructuring activities, as compared to current financial accounting and reporting requirements.

In November 2002, the FASB's Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. This Issue addresses certain aspects of the accounting by a company for arrangements under which it will perform multiple revenue-generating activities. In applying this Issue, generally, separate contracts with the same customer that are entered into at or near the same time are presumed to have been negotiated as a package and should, therefore, be evaluated as a single contractual arrangement. This Issue also addresses how contract consideration should be measured and allocated to the separate deliverables in the arrangement. The application of this Issue could impact the timing of revenue recognition when a contractual arrangement combines installation and hardware. This Issue is applicable to revenue arrangements entered into beginning in 2004. We are in the process of evaluating the impact of the Issue.

In November 2002, the FASB issued Interpretation 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* The Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations does not apply to product warranties. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The Company believes that adoption of the recognition and measurement provisions of Interpretation 45 will not have a material impact on its financial statements.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure.* The standard provides additional transition methods for entities adopting the provisions to expense the fair value of stock options under SFAS No. 123, *Accounting for Stock-Based Compensation*, and requires additional disclosure for entities that utilize SFAS No. 123 or Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). The provisions of this standard are effective for fiscal years ending after December 15, 2002. Although the Company will not be adopting the fair value provisions of SFAS No. 123, it has provided the required enhanced disclosures regarding stock-based compensation.

In January 2003, the FASB issued Interpretation 46, *Consolidation of Variable Interest Entities.* In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Interpretation 46 requires a variable interest entity to be consolidated by the company that is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of Interpretation 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. The Company believes that adoption of the recognition and measurement provisions of Interpretation 46 will not have a material impact on its financial statements.

Subsequent Event

Silicon Energy Corporation Acquisition: On March 4, 2003, Itron acquired Silicon Energy for merger consideration equal to $71.2 million less the repayment of approximately $4.2 million in convertible debt and other consideration primarily concerning the funding of Silicon Energy bonus payments. Of the merger consideration, $6.4 million was held back as an indemnification escrow amount. In addition to the $71.2 million mentioned above, other transaction costs of approximately $3 million were incurred. The amount of merger consideration is subject to a working capital adjustment that will be finalized within 45 days from closing. At closing, no working capital adjustment was deemed necessary. If a working capital adjustment is required, the amount of merger consideration will be adjusted accordingly.

Silicon Energy is a privately-held California based corporation that provides enterprise energy management solutions that enable utilities, energy service providers, governments, and commercial and industrial energy users to efficiently manage and apply energy consumption data, optimize the delivery and use of energy, mitigate risk, control energy costs, and optimize energy procurement.

Itron acquired Silicon Energy with a portion of cash on hand and the proceeds from a new $50 million three-year term loan, repayable over three years with level principal payments. The interest on the term loan at closing was 3.8125% and will vary according to market rates and the Company's consolidated leverage ratio. The Company is required under the term loan to at all times, after 90 days after the closing date, maintain in effect one or more interest rate agreements with an aggregate notional principal amount of not less than 50% of the aggregate principal amount of the term loan with a term of not less than two years. The effect of the interest rate agreements will be to substantially fix or limit the interest rate on a portion of term loan principal.

The term loan is a component of a new $105 million three-year credit facility that was established coincident with the closing of the acquisition. In addition to the term loan, the new credit facility has a $55 million revolving loan feature. Of this amount, $20 million may only be used to collateralize an appeals bond in connection with the Benghiat patent litigation matter. Of the remaining $35 million of availability, $16.0 million is currently utilized by outstanding standby letters of credit.

The new credit facility is secured by substantially all tangible and intangible assets, including the stock of domestic subsidiaries and a portion of the stock of foreign subsidiaries if the later meet certain size tests, except assets related to outsourcing contracts that are or may be financed with a project financing.

Under the purchase method of accounting, the purchase price will be allocated to the assets acquired and the liabilities assumed based on their estimated fair values. The valuations of the assets and liabilities acquired are currently being performed by the Company and an independent appraiser. As the valuations are in process at this time, it is not now practicable for us to provide an opening balance sheet reflecting the fair values.

Reorganization: In January 2003, Itron announced a reorganization of its Energy Information Solutions (EIS) product group in Raleigh, North Carolina, which is responsible for product development and support activities for MV-90. The reorganization was driven by continued slow activity in the wholesale energy markets. Approximately 40 positions in Raleigh were eliminated. An estimated reorganization expense of $2.0 to $2.5 million will be reflected in 2003.

ITEM 7A: QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk: The table below provides information about our financial instruments that are sensitive to changes in interest rates. At December 31, 2002, we had fixed rate debt of approximately $5.4 million related to project financing. The fair value of the debt is $5.6 million at December 31, 2002 (See Notes 9 and 10 of our accompanying consolidated financial statements). The table below illustrates the expected cash flows for principal payments over the remaining life of the debt.

	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Beyond 2007
			($ in thousands)			
Project financing	$ 685	$ 739	$ 797	$ 860	$ 927	$ 1,439
Average interest rate	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%

Foreign Currency Exchange Rate Risk: We conduct business in a number of foreign countries and, therefore, face exposure to adverse movements in foreign currency exchange rates. International revenue was 5% of total revenue for the year ended December 31, 2002. Since we do not use derivative instruments to manage all foreign currency exchange rate risks, the consolidated results of operations in U.S. dollars are subject to fluctuation as foreign exchange rates change. In addition, our foreign currency exchange rate exposures may change over time as business practices evolve and could have a material impact on our financial results.

Our primary exposure has related to non-dollar denominated sales, cost of sales and operating expenses in our subsidiary operations in France, the United Kingdom, and Australia. This means we have been subject to changes in the consolidated results of operations expressed in U.S. dollars. Other international business, consisting primarily of shipments from the U.S. to international distributors and customers in the Pacific Rim and Latin America, is predominantly denominated in U.S. dollars, which reduces our exposure to fluctuations in foreign currency exchange rates. In some cases where sales from the U.S. are not denominated in U.S. dollars, we have and may hedge our foreign exchange risk by selling the expected foreign currency receipts forward. There have been and there may continue to be large period-to-period fluctuations in the relative portions of international revenue that are denominated in foreign currencies.

Risk-sensitive financial instruments in the form of inter-company trade receivables are mostly denominated in U.S. dollars, while inter-company notes are denominated in local foreign currencies. As foreign currency exchange rates change, inter-company trade receivables impact current earnings, while inter-company notes are re-valued and result in translation gains or losses that are reported in other comprehensive income.

Because our earnings are affected by fluctuations in the value of the U.S. dollar against foreign currencies, we have performed a sensitivity analysis assuming a hypothetical 10% increase in the value of the dollar relative to the currencies in which our transactions are denominated. As of December 31, 2002, the analysis indicated that such market movements would not have had a material effect on our consolidated results of operations or on the fair value of any risk-sensitive financial instruments. The model assumes foreign currency exchange rates will shift in the same direction and relative amount. However, exchange rates rarely move in the same direction. This assumption may result in the overstatement or understatement of the impact of changing exchange rates on assets and liabilities denominated in a foreign currency. Consequently, the actual effects on operations in the future may differ materially from results of the analysis for 2002. We may, in the future, experience greater fluctuations in U.S. dollar earnings from fluctuations in foreign currency exchange rates. We will continue to monitor and assess the impact of currency fluctuations and may institute more hedging alternatives.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF MANAGEMENT

To the Board of Directors and Shareholders of Itron, Inc.

Management is responsible for the preparation of our consolidated financial statements and related information appearing in this annual report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present our financial position and results of operations in conformity with accounting principles generally accepted in the United States of America. Management has included in our financial statements amounts based on estimates and judgments that it believes are reasonable under the circumstances.

Management's explanation and interpretation of our overall operating results and financial position, with the basic financial statements presented, should be read in conjunction with the entire report. The Notes to Consolidated Financial Statements, an integral part of the basic financial statements, provide additional detailed financial information. Our Board of Directors has an Audit and Finance Committee composed of non-management Directors. The Committee meets regularly with financial management and Deloitte & Touche LLP to review accounting control, auditing and financial reporting matters.

LeRoy D. Nosbaum
Chairman and Chief Executive Officer

David G. Remington
Vice President and Chief Financial Officer

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of Itron, Inc.

We have audited the accompanying consolidated balance sheets of Itron, Inc. and subsidiaries as of December 31, 2002 and 2001 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Itron, Inc. and subsidiaries at December 31, 2002 and 2001 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets in 2002 and revenues in 2000.

DELOITTE & TOUCHE LLP

Seattle, Washington
February 5, 2003 (March 4, 2003 as to Note 20)

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2002	2001	2000
	($ in thousands, except per share data)		
Revenues			
Sales	$ 241,158	$ 183,425	$ 141,899
Service	43,684	42,130	38,042
Total revenues	284,842	225,555	179,941
Cost of revenues			
Sales	122,189	100,692	83,954
Service	30,384	27,004	25,138
Total cost of revenues	152,573	127,696	109,092
Gross profit	132,269	97,859	70,849
Operating expenses			
Sales and marketing	30,603	24,952	19,902
Product development	36,780	30,000	21,331
General and administrative	26,653	16,780	18,389
Amortization of intangibles	2,356	1,486	1,762
Restructurings	3,135	(1,219)	(185)
Litigation accrual	7,400	—	—
In-process research and development	7,200	—	—
Total operating expenses	114,127	71,999	61,199
Operating income	18,142	25,860	9,650
Other income (expense)			
Equity in affiliates	126	(616)	1,069
Interest income	1,187	1,410	1,110
Interest expense	(2,061)	(5,112)	(5,313)
Other income (expense)	1,465	(176)	2,022
Total other income (expense)	717	(4,494)	(1,112)
Income before income taxes and cumulative effect of change in accounting principle	18,859	21,366	8,538
Income tax provision	(10,176)	(7,916)	(3,270)
Net income before cumulative effect of change in accounting principle	8,683	13,450	5,268
Cumulative effect of change in accounting principle, net of income taxes of $1,581	—	—	(2,562)
Net income	$ 8,683	$ 13,450	$ 2,706
Earnings per share			
Basic			
Income before cumulative effect	$ 0.45	$ 0.86	$ 0.35
Cumulative effect	—	—	(0.17)
Basic net income per share	$ 0.45	$ 0.86	$ 0.18
Diluted			
Income before cumulative effect	$ 0.41	$ 0.75	$ 0.34
Cumulative effect	—	—	(0.17)
Diluted net income per share	$ 0.41	$ 0.75	$ 0.18
Weighted average number of shares outstanding			
Basic	19,262	15,639	15,180
Diluted	21,380	18,834	15,385

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
(continued)

	Year Ended December 31,		
	2002	2001	2000
	($ in thousands, except per share data)		
Pro forma amounts assuming SAB 101 is applied retroactively			
Net income	$ 8,683	$ 13,450	$ 5,268
Earnings per share			
Basic net income per share	$ 0.45	$ 0.86	$ 0.35
Diluted net income per share	$ 0.41	$ 0.75	$ 0.34
Weighted average number of shares outstanding			
Basic	19,262	15,639	15,180
Diluted	21,380	18,834	15,385

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

	At December 31,	
	2002	2001
	($ in thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 32,564	$ 20,582
Short-term investments, available-for-sale	—	22,199
Accounts receivable, net	57,571	52,345
Inventories	15,660	16,281
Deferred income taxes	5,927	4,134
Other	2,770	1,192
Total current assets	114,492	116,733
Property, plant and equipment, net	30,168	25,918
Equipment used in outsourcing, net	11,589	12,918
Intangible assets, net	18,305	4,419
Goodwill	44,187	6,616
Restricted cash	—	5,100
Deferred income taxes, net	24,050	24,952
Other	4,455	6,035
Total assets	$ 247,246	$ 202,691
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 25,526	$ 24,689
Wages and benefits payable	18,259	11,611
Accrued litigation	7,400	—
Current portion of long-term debt	691	229
Deferred revenue	11,580	13,558
Total current liabilities	63,456	50,087
Convertible subordinated debt	—	53,313
Mortgage note and leases payable	—	4,860
Project financing	4,762	6,082
Warranty and other obligations	17,427	12,297
Total liabilities	85,645	126,639
Commitments and contingencies (Notes 9 and 18)		
Shareholders' equity		
Common stock, no par value, 75 million shares authorized, 20,192,847 and 16,221,468 shares issued and outstanding	195,546	120,316
Preferred stock, no par value, 10 million shares authorized, no shares issued or outstanding	—	—
Accumulated other comprehensive loss	(280)	(1,916)
Accumulated deficit	(33,665)	(42,348)
Total shareholders' equity	161,601	76,052
Total liabilities and shareholders' equity	$ 247,246	$ 202,691

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Shares	Amount	Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings (Deficit)	Total
			($ in thousands)		
Balances at January 1, 2000	14,959	$ 107,603	$ (1,573)	$ (58,504)	$ 47,526
Net income				2,706	2,706
Currency translation adjustment, net of tax			(267)		(267)
Total comprehensive income					2,439
Stock issues:					
Options exercised	132	681			681
Employee savings plan	148	988			988
Employee stock purchase plan	90	458			458
Balances at December 31, 2000	15,329	$ 109,730	$ (1,840)	$ (55,798)	$ 52,092
Net income				13,450	13,450
Currency translation adjustment, net of tax			(114)		(114)
Unrealized gain on investments, net of tax			38		38
Total comprehensive income					13,374
Stock issues (repurchases):					
Options exercised	842	7,396			7,396
Stock option income tax benefits		4,419			4,419
Stock repurchased by Company	(85)	(1,908)			(1,908)
Director compensation	16	112			112
Conversion of subordinated debt	8	146			146
Employee stock purchase plan	111	421			421
Balances at December 31, 2001	16,221	$ 120,316	$ (1,916)	$ (42,348)	$ 76,052
Net income				8,683	8,683
Currency translation adjustment, net of tax			1,674		1,674
Reclassification adjustment for gains realized in net income, net of tax			(38)		(38)
Total comprehensive income					10,319
Stock issues (repurchases):					
Options exercised	737	7,362			7,362
Stock option income tax benefits		5,066			5,066
Stock repurchased by Company	(808)	(12,555)			(12,555)
Director compensation	6	144			144
Conversion of subordinated debt	3,169	53,108			53,108
Employee stock purchase plan	19	304			304
Acquisition of LineSoft	849	21,801			21,801
Balances at December 31, 2002	20,193	$ 195,546	$ (280)	$ (33,665)	$ 161,601

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2002	2001	2000
	($ in thousands)		
Operating activities			
Net income	$ 8,683	$ 13,450	$ 2,706
Noncash charges (credits) to income:			
Depreciation and amortization	10,184	9,900	13,254
Acquired in-process research and development	7,200	—	—
Stock option income tax benefits	5,066	4,419	—
Deferred income tax provision	4,731	3,053	3,811
Realization of accumulative currency translation losses due to restructuring	641	—	—
Forfeited interest, director compensation and amortization of discount on invested securities	428	112	—
Impairment loss	401	—	—
Cumulative effect of change in accounting principle	—	—	2,562
Equity in affiliates, net	(127)	616	(945)
Gain on early extinguishment of debt	(200)	—	(1,044)
Gain on sale of building	(841)	—	—
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	2,615	(2,486)	(2,488)
Inventories	621	915	277
Accounts payable and accrued expenses	9,462	(4,403)	(1,936)
Wages and benefits payable	4,497	2,367	(7,072)
Deferred revenue	(3,798)	4,533	(4,407)
Other, net	(337)	(139)	(917)
Cash provided by operating activities	49,226	32,337	3,801
Investing activities			
Proceeds from sales and maturities of investment securities	48,979	8,172	—
Purchase of short-term investments	(26,922)	(30,371)	—
Reclassification of restricted cash	5,100	(5,100)	—
Proceeds from the sale of property, plant and equipment	1,901	—	—
Proceeds from the sale of equipment used in outsourcing, net	—	—	32,750
Acquisition of property, plant and equipment	(10,536)	(7,642)	(11,594)
Issuance of note receivable	(2,000)	—	—
Acquisitions of LineSoft, RER, and eMobile, net of cash and cash equivalents	(42,917)	—	—
Other, net	3,043	(3,088)	(381)
Cash provided (used) by investing activities	(23,352)	(38,029)	20,775
Financing activities			
Change in short-term borrowings, net	(2,527)	—	(3,646)
Payments on project financing	(1,581)	(589)	(545)
Convertible subordinated debt repurchase	—	—	(2,101)
Issuance of common stock	7,666	7,817	2,127
Repurchase of common stock	(12,555)	(1,908)	—
Payments on mortgage note payable	(4,853)	(214)	(183)
Other, net	(42)	(48)	(550)
Cash provided (used) by financing activities	(13,892)	5,058	(4,898)
Increase (decrease) in cash and cash equivalents	11,982	(634)	19,678
Cash and cash equivalents at beginning of period	20,582	21,216	1,538
Cash and cash equivalents at end of period	$ 32,564	$ 20,582	$ 21,216
Non cash transactions:			
Acquisition of LineSoft in partial exchange for common stock	$ 21,801	—	—
Debt to equity conversion	53,313	$ 146	—
Conversion of debt issuance costs	347	—	—
Acquisition of eMobile, non-cash consideration	2,547	—	—
Supplemental disclosure of cash flow information:			
Income taxes paid	$ 379	$ 184	$ 503
Interest paid	2,619	4,335	4,289

The accompanying notes are an integral part of these consolidated financial statements.

Note 1: Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of Itron, Inc. and our wholly owned subsidiaries. All significant inter-company transactions and balances are eliminated. We consolidate all entities in which we have a greater than 50% ownership interest and over which we have control. We account for entities in which we have a 50% or less investment and exercise significant influence under the equity method of accounting. Entities in which we have less than a 20% investment and do not exercise significant influence are recognized under the cost method.

Cash and Cash Equivalents

We consider all highly liquid instruments with original maturities of three months or less to be cash equivalents. Cash equivalents are recorded at cost, which approximates fair value.

Short-term Investments

The Company's short-term investments are classified as available-for-sale and are recorded at market value. Investment purchases and sales are accounted for on a trade date basis and market value at a period end is based upon quoted market prices for each security. Realized gains and losses are determined on the specific identification method. Unrealized holding gains and losses, net of any tax effect, are recorded as a component of other comprehensive income.

Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method. Cost includes raw materials and labor, plus applied direct and indirect costs. Service inventories consist primarily of sub-assemblies and components necessary to support post-sale maintenance. During 2000, we spun-off our low volume manufacturing and handheld repair service operation to an outside vendor in which we have a 30% equity interest. As a result of this transition, we had consigned inventory at our affiliate totaling $1.3 million at December 31, 2002 and $1.8 million at December 31, 2001.

Property, Plant and Equipment and Equipment used in Outsourcing

Property, plant and equipment are stated at cost. Depreciation, which includes the depreciation of assets recorded under capital leases, is computed using the straight-line method over the assets' estimated useful lives of three to seven years, or over the term of the applicable capital lease, if shorter. Project management and installation costs and equipment used in outsourcing contracts are depreciated using the straight-line method over the shorter of the useful life or the term of the contract. Plant is depreciated over 30 years using the straight-line method. We review the carrying value of property, plant and equipment for impairment on a periodic basis; no significant impairment has been recognized.

Capitalized Software Development Costs

Financial accounting standards require the capitalization of certain development costs for software to be marketed or sold after technological feasibility of the software is established. Due to the relatively short period between technological feasibility of a product and the completion of product development and the insignificance of related costs incurred during this period, no software development costs have been capitalized in the years ended December 31, 2002, 2001 and 2000. Internal use software development costs are capitalized and amortized over the estimated useful life of three years. In 2002 and 2001, we capitalized approximately $106,000 and $250,000 in internal use software development costs, respectively.

Acquisitions

In accordance with Statement of Financial Accounting Standard (SFAS) No. 141, *Business Combinations*, the Company utilizes the purchase method of accounting for all business combinations completed after July 1, 2001. Business combinations accounted for under the purchase method include the results of operations of the acquired business from the date of acquisition. Net assets of the company acquired and intangible assets that arise from contractual/legal rights, or are capable of being separated, are recorded at their fair values at the date of acquisition. The balance of the purchase price after fair value allocations represents goodwill. Amounts allocated to in-process research and development are expensed in the period of acquisition.

Intangible Assets

Effective January 1, 2002, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. There was no write-down of goodwill upon adoption of SFAS No. 142. Goodwill is tested for impairment annually or more frequently if a significant event occurs. Intangible assets with a finite life are amortized based on estimated discounted cash flows over the weighted average useful life. Prior to the adoption of SFAS No. 142, goodwill and intangible assets were amortized using the straight-line method over periods ranging from three to 20 years.

Warranty

The Company offers standard warranty terms on our product sales of between one and three years. A provision for estimated warranty costs is recorded at the time of sale and periodically adjusted to reflect actual experience. The short-term warranty provision is included in accounts payable and accrued expenses. The long-term warranty provision covers estimated warranty cost for the second and third years of customer use and future expected costs of testing and replacement of radio meter module batteries and fixed network equipment. Warranty expense was $5.3 million in 2002, $4.4 million in 2001, and $3.8 million in 2000.

The warranty provision and a summary of the account activity for the years ended December 31, 2002 and 2001 is as follows:

	Balance at beginning of period	Additions charged to costs and expenses	Deductions	Balance at end of period
2001	$ 5,734	$ 4,407	$ 3,814	$ 6,327
2002	6,327	5,262	2,150	9,439

Contingencies

The Company is subject to various legal proceedings and claims of which the outcomes are subject to significant uncertainty. An estimated loss from a contingency is accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. The Company evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact the Company’s financial position or its results of operations.

Income Taxes

We account for income taxes using the asset and liability method. Under this method, deferred income taxes are recorded for the temporary differences between the financial reporting basis and tax basis of our assets and liabilities. These deferred taxes are measured using the provisions of currently enacted tax laws. The Company establishes a valuation allowance when it is likely that we will not generate sufficient taxable income to allow the realization of the deferred tax asset.

Foreign Exchange

Our consolidated financial statements are prepared in U.S. dollars. Assets and liabilities of foreign subsidiaries are denominated in foreign currencies and are translated to U.S. dollars at the exchange rates in affect on the balance sheet date. Revenues, costs of revenues and expenses for these subsidiaries are translated using a weighted average rate for the relevant reporting period. Translation adjustments resulting from this process are a component of comprehensive income in shareholders' equity and are reflected net of tax.

Revenue Recognition

Sales consist of hardware, software license fees, custom software development, field and project management services, and engineering, consulting and installation services. Service revenues include post-sale maintenance support and outsourcing services. Outsourcing services encompass installation, operation and maintenance of meter reading systems to provide meter information to a customer for billing and management purposes. Outsourcing services can be provided for systems we own as well as those owned by our customers.

The Company recognizes revenues from hardware at the time of shipment, receipt, or, if applicable, upon completion of customer acceptance provisions. Revenues for software licenses, custom software development, field and project management services, engineering and consulting, installation, outsourcing and maintenance services are recognized when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the sales price is fixed or determinable, and (4) collectibility is reasonably assured. For software arrangements with multiple elements, revenue is recognized dependent upon whether vendor-specific objective evidence (VSOE) of fair value exists for each of the elements.

Under outsourcing arrangements, revenue is recognized as services are provided. Hardware and software post-contract customer support fees are recognized over the life of the related service contracts.

In the fourth quarter of 2000, we implemented SEC Staff Accounting Bulletin No. 101, as amended, *Revenue Recognition in Financial Statements* (SAB No. 101), which provides the SEC staff's views in applying generally accepted accounting principles to selected revenue recognition issues. As a result, effective January 1, 2000, we changed our revenue recognition for certain transactions related to customer acceptance, F.O.B. destination shipments, and outsourcing contracts under which the Company retains title to the related equipment. The implementation was accounted for as a cumulative change in accounting principle in 2000.

Deferred revenue is recorded for products or services that have been paid for by a customer but have not yet been provided. Unbilled receivables are recorded when revenues are recognized upon product shipment or service delivery and invoicing occurs at a later date.

Product Development Expenses

Product development costs are expensed as incurred.

Fair Value of Financial Instruments

The carrying amounts for cash and cash equivalents, short-term investments, and accounts receivable approximate fair value. The fair market value for long-term debt is based on quoted market rates or prices where available.

Earnings Per Share

Basic earnings per share (EPS) is calculated using net income divided by the weighted average common shares outstanding during the year. Diluted EPS is similar to Basic EPS except that the weighted average common shares outstanding are increased to include the number of additional common shares that would have been outstanding if dilutive options had been exercised and dilutive convertible subordinated notes had been converted. Diluted EPS assumes that common shares were issued upon the exercise of stock options for which

the market price exceeded the exercise price, less shares that could have been repurchased with the related proceeds (treasury stock method). It also assumes that any dilutive convertible subordinated notes outstanding at the beginning of each year were converted, with related interest adjusted accordingly (if converted method).

Derivatives

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. The application of SFAS No. 133 does not have a significant impact on our financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Because of various factors affecting future costs and operations, actual results could differ from estimates.

Concentration of Credit Risk

The Company currently derives the majority of revenues from sales of products and services to utilities. As a result, operations are subject to the same regulatory, political and economic risks that affect that industry. One customer made up 12% of total revenues in 2002 and 15% in 2001. There were no customers who accounted for more than 10% of total Company revenues in 2000. Additionally, certain affiliates in which the Company has invested in are development stage enterprises that are subject to risks related to obtaining sufficient capital or financing, developing a viable product and obtaining sufficient customer demand.

Stock-Based Compensation

SFAS No. 123, *Accounting for Stock-Based Compensation* allows companies to either expense the estimated fair value of stock options or to continue to follow the intrinsic value method set forth in Accounting Principles Board Opinion 25, *Accounting for Stock Issued to Employees* (APB 25), but disclose the pro forma effects on net income (loss) had the fair value of the options been expensed. The Company has elected to continue to apply APB 25 in accounting for our stock option incentive plans and disclose the pro forma effects of applying the fair value provisions of SFAS No. 123.

Had the compensation cost for our stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method prescribed in SFAS No. 123, our net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	Year Ended December 31,		
	2002	2001	2000
	($ in thousands, except per share data)		
Net income			
As reported	$ 8,683	$ 13,450	$ 2,706
Deduct: Total fair value of stock-based compensation expense, net of related tax effect	(3,300)	(2,139)	(2,019)
Pro forma net income	$ 5,383	$ 11,311	$ 687
Diluted earnings per share			
As reported	$ 0.41	$ 0.75	$ 0.18
Pro forma	0.26	0.63	0.04

The weighted average fair value of options granted was $17.45, $8.05, and $7.37 during 2002, 2001 and 2000, respectively. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model using the following assumptions:

	2002	2001	2000
Dividend yield	—	—	—
Expected volatility	86.7%	84.3%	72.5%
Risk-free interest rate	4.2%	5.4%	7.1%
Expected life (years)	5.0	5.0	5.9

Reclassifications

Certain amounts in the 2001 and 2000 financial statements have been reclassified to conform to the 2002 presentation.

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, *Accounting for Obligations Associated with the Retirement of Long-Lived Assets*. The provisions of SFAS No. 143 address accounting and reporting for obligations associated with the retirement of tangible long-lived assets. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The adoption of SFAS No. 143 has not had a significant impact on the financial position or results of operations of the Company.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which supercedes FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of.* SFAS No. 144 requires that long-lived assets be measured at the lower of carrying amount or fair-value less cost to sell, whether reported in continuing operations or in discontinued operations, to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001. The adoption of SFAS No. 144 has not had a significant impact on the financial position or results of operations of the Company, relative to its existing assets.

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.* SFAS No. 145 covers a variety of technical issues that will not have a material effect on our financial statements except for the rescission of SFAS No. 4, which required extinguishment of debt be treated as an extraordinary item. This rescission of SFAS No. 4 was effective for fiscal years beginning after May 15, 2002, with early adoption encouraged. The Company adopted SFAS No. 145 effective January 1, 2002 and reflected its $200,000 gain on extinguishment of debt in Other income (expense), as opposed to classifying it as an extraordinary item as was previously required. Prior years gains on the early extinguishment of debt have been reclassified to comply with SFAS No. 145.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities.* The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 may have an impact on the timing of the recognition of costs associated with future restructuring activities, as compared to current financial accounting and reporting requirements.

In November 2002, the FASB's Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. This Issue addresses certain aspects of the accounting by a company for arrangements under which it will perform multiple revenue-generating activities. In

applying this Issue, generally, separate contracts with the same customer that are entered into at or near the same time are presumed to have been negotiated as a package and should, therefore, be evaluated as a single contractual arrangement. This Issue also addresses how contract consideration should be measured and allocated to the separate deliverables in the arrangement. The application of this Issue could impact the timing of revenue recognition when a contractual arrangement combines installation and hardware. This Issue is applicable to revenue arrangements entered into beginning in 2004. We are in the process evaluating the impact of the Issue.

In November 2002, the FASB issued Interpretation 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* The Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations does not apply to product warranties. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The Company believes that adoption of the recognition and measurement provisions of Interpretation 45 will not have a material impact on its financial statements.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure.* The standard provides additional transition methods for entities adopting the provisions to expense the fair value of stock options under SFAS No. 123, *Accounting for Stock-Based Compensation*, and requires additional disclosure for entities that utilize SFAS No. 123 or Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). The provisions of this standard are effective for fiscal years ending after December 15, 2002. Although the Company will not be adopting the fair value provisions of SFAS No. 123, it has provided the required enhanced disclosures regarding stock-based compensation.

In January 2003, the FASB issued Interpretation 46, *Consolidation of Variable Interest Entities.* In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Interpretation 46 requires a variable interest entity to be consolidated by the company that is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of Interpretation 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. The Company believes that adoption of the recognition and measurement provisions of Interpretation 46 will not have a material impact on its financial statements.

Note 2: Short-Term Investments

Short-term investments, which are classified as available-for-sale, consist of U.S. government and agency paper, money market funds, repurchase agreements, master notes, and certificates of deposits. During the year ended December 31, 2002, we liquidated our short-term investments, and realized a gain of $27,000. Cost was determined using the specific identification method in computing the realized gain/(loss) in 2002. There were no significant realized gains or losses on short-term investments for the years ended December 31, 2001 and 2000. Information related to such investments at December 31, 2001 is as follows:

	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
		($ in thousands)		
Money market funds and other	$ 1,000	$ 2	$ —	$ 1,002
Commercial paper	1,994	3	—	1,997
U.S. government and agency debt securities	19,167	44	(11)	19,200
Total available-for-sale investments	$22,161	$ 49	$ (11)	$ 22,199

Purchases of short-term investments were $26.9 million and $30.4 million for the years ended December 31, 2002 and 2001, respectively. Proceeds from the sale or maturity of investment securities for the years ended December 31, 2002 and 2001 were $49.0 million and $8.2 million, respectively. There were no purchases or sales of short-term investment securities in the year ended December 31, 2000. Interest income earned on short-term investments was $486,000 and $658,000 for the years ended December 31, 2002 and 2001, respectively.

Note 3: Earnings Per Share and Capital Structure

	Year Ended December 31,		
	2002	2001	2000
	($ in thousands)		
Basic earnings per share:			
Net income available to common shareholders	$ 8,683	$ 13,450	$ 2,706
Weighted average shares outstanding	19,262	15,639	15,180
Basic net income per share	$ 0.45	$ 0.86	$ 0.18
Diluted earnings per share:			
Net income available to common shareholders	$ 8,683	$ 13,450	$ 2,706
Interest on convertible debt, net of income taxes	171	637	—
Adjusted net income available to common shareholders, assuming conversion	$ 8,854	$ 14,087	$ 2,706
Weighted average shares outstanding	19,262	15,639	15,180
Effect of dilutive securities:			
Employee stock options	1,690	1,644	205
Convertible debt	428	1,551	—
Adjusted weighted average shares	21,380	18,834	15,385
Diluted net income per share	$ 0.41	$ 0.75	$ 0.18

We have granted options to purchase shares of our common stock to directors, employees and other key personnel at fair market value on the date of grant. The average price of Itron common stock was $24.12 in 2002 compared with $17.09 in 2001 and $6.06 in 2000.

The dilutive effect of options is calculated using the treasury stock method. Under this method, earnings per share is computed as if the options were exercised at the beginning of the period (or at time of issuance, if later) and as if the funds obtained thereby were used to purchase common stock at the average market price during the period. Weighted average common shares outstanding, assuming dilution, include the incremental shares that would be issued upon the assumed exercise of stock options. At December 31, 2002, 2001 and 2000, we had options outstanding of 3.5 million, 3.4 million and 3.2 million, respectively, at average option exercise prices of $11.54, $9.67 and $9.91, respectively. For the year ended December 31, 2002, approximately 1.8 million of our stock options were excluded from the calculation of diluted earnings per share because they were anti-dilutive. These options could be dilutive in future periods. For the same period in 2001 and 2000, approximately 1.8 million and 3.0 million of our stock options were excluded from the calculation, respectively.

The dilutive effect of our convertible subordinated notes is calculated using the if converted method. Under this method, the after-tax amount of interest expense related to the convertible debt is added back to net income. In 2000, 2001 and for a portion of 2002, we had subordinated convertible debt outstanding with conversion prices of $9.65, representing 1.5 million shares, and $23.70, representing an additional 1.6 million shares. During April and May of 2002, we exercised our option to redeem our subordinated convertible debt. All holders of the notes chose to convert their notes into common stock as opposed to redeem them. In both 2001 and 2002 periods, certain portions of the convertible debt shares were excluded from the earnings per share calculation, as they

were anti-dilutive. For the year ended December 31, 2000, all convertible debt shares were excluded from the earnings per share calculation, as they were anti-dilutive.

In May 1998, our Board of Directors authorized the repurchase of up to 1.0 million shares of our common stock. Through the year ended December 31, 2000, we had repurchased 107,000 shares at an average price of $14.53. During the years ended December 31, 2001 and 2002, we repurchased 85,100 shares at an average price of $22.42, and the remaining 807,900 shares at an average price of $15.54, respectively.

In November 2002, our Board of Directors authorized the repurchase of up to 1.0 million shares of our common stock. No shares have been repurchased under the new repurchase authorization.

In December 2002, we amended and restated our Articles of Incorporation to authorize 10 million shares of preferred common stock with no par value. The amendment brings the number of authorized shares to 85 million. In the event of a liquidation, dissolution, or winding up of the affairs of the corporation, whether voluntary or involuntary, the holders of the preferred stock at the time outstanding shall be entitled to be paid the preferential amount per share to be determined by the Board of Directors prior to any payment to holders of common stock. Shares of preferred stock may be convertible into common stock based on terms, conditions, rates and subject to such adjustments set by the Board of Directors. There was no preferred stock issued or outstanding at December 31, 2002, 2001 or 2000.

Note 4: Certain Balance Sheet Components

	At December 31,	
	2002	2001
	($ in thousands)	
Accounts receivable		
Trade (net of allowance for doubtful accounts of $1,291 and $1,427)	$ 47,496	$ 38,342
Unbilled revenue	10,075	14,003
Total accounts receivable	$ 57,571	$ 52,345
Inventories		
Materials	$ 4,304	$ 4,800
Work in process	804	720
Finished goods	10,322	10,382
Total manufacturing inventories	15,430	15,902
Service inventories	230	379
Total inventories	$ 15,660	$ 16,281
Property, plant and equipment		
Machinery and equipment	$ 31,133	$ 30,481
Equipment used in outsourcing	15,987	15,986
Computers and purchased software	34,029	28,746
Buildings, furniture and improvements	20,373	19,556
Land	1,735	1,958
Total cost	103,257	96,727
Accumulated depreciation	(61,500)	(57,891)
Property, plant and equipment, net	$ 41,757	$ 38,836

Depreciation expense was $7.8 million, $8.1 million and $10.5 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Note 5: Business Combinations

Linesoft: In March 2002, the Company acquired LineSoft Corporation (LineSoft), a leading provider of engineering design software applications and consulting services for optimizing the construction or rebuild of utility transmission and distribution systems. The purchase price was $43.5 million, distributed as $20.9 million in cash and 848,870 shares of common stock valued at $25.68 per share, plus acquisition expenses of $1.6 million. A working capital adjustment decreased the purchase price by $784,000. The value of the common shares issued was determined based on the average market price of the Company's common shares over the twenty-day period prior to the fifth trading day prior to the close of the acquisition. In addition, the Company is required to pay additional amounts to certain LineSoft shareholders of up to $13.5 million in the event that certain defined revenue targets in 2002, 2003 and/or 2004 are exceeded. The 2002 revenues did not warrant an earnout payment. Any earnout payments will be paid half in cash and half in Company common stock. If an earnout payment is required, the purchase price will be increased by the fair value of the payment.

The Company assumed a pre-existing loan in the amount of $2.0 million to the former Chief Executive Officer of LineSoft by renewing and replacing it with a new non-recourse promissory note, secured with the Company's common stock, in the same amount. The replacement note matures May 11, 2003, and bears interest at an annual rate of 6.0%. As of December 31, 2002, the loan balance was $473,000.

An independent valuation was performed to identify and value the acquired intangible assets. The assets primarily consist of core-developed technology and customer contracts. The Company is amortizing the acquired intangibles over the lives of the estimated discounted cash flows assumed in the valuation models. In addition to the amortizable intangible assets identified, in-process research and development (IPR&D) was also identified. A fair value of $7.2 million attributed to IPR&D was determined utilizing the income approach, which discounts expected future cash flows from projects under development to their net present value. Each project was analyzed to determine the technological innovations included, the utilization of core technology, the complexity, cost and time to complete development, any alternative future use or current technological feasibility, and the stage of completion. Future cash flows were estimated taking into account the expected life cycles of the product and the underlying technology, relevant market sizes and industry trends. A discount rate was determined based on an assessment of the weighted average cost of capital of LineSoft, a weighted average return on assets, the internal rate of return of the investment in the acquisition of LineSoft, and venture capital rates of return. The discount rate used in the valuation of all IPR&D projects was 25 percent. The Company expensed the IPR&D in 2002 and is amortizing the core-developed technology and customer contracts over weighted average useful lives of 29 and 30 months, respectively. Goodwill will be assessed for impairment on an annual basis, or upon a significant event during a year, in accordance with SFAS 142, *Goodwill and Other Intangible Assets*.

Regional Economic Research: In October 2002, the Company acquired Regional Economic Research, Inc. (RER), a California based company specializing in energy consulting, analysis and forecasting services and software. The purchase price of $14.3 million was $13.9 million paid in cash, plus acquisition expenses of $428,500. The Company is required to pay additional amounts to certain RER shareholders of up to $4.0 million if certain defined revenue targets in 2003 and 2004 are exceeded. The form of any earnout payments, payable in cash and/or Company common stock, will be based solely upon Company discretion. If an earnout payment is required, the purchase price will be increased by the fair value of the disbursement.

An independent valuation was performed to identify and value the acquired intangible assets. The assets primarily consist of core-developed technology and software license renewal contracts. The fair values of the acquired intangible assets were determined utilizing the income approach based on projected revenues. The Company is amortizing the acquired intangibles over the lives of the estimated discounted cash flows assumed in the valuation models. Amortization periods for the core-developed technology and software license renewal contracts are 49 and 45 months, respectively. Goodwill will be assessed for impairment on an annual basis, or upon a significant event during a year, in accordance with SFAS 142, *Goodwill and Other Intangible Assets*.

eMobile Data: Also in October 2002, the Company acquired eMobile Data Corporation (eMobile), a British Columbia, Canada based company that provides wireless, web-based workforce management solutions for the utility industry. The purchase price of $9.4 million consisted of $6.4 million of cash, $2.5 million of non-cash consideration, and $487,800 of acquisition expenses. A working capital adjustment decreased the purchase price by $28,500. During the year ended December 31, 2001, we loaned $2.0 million in the form of a convertible note to eMobile which, with accrued and unpaid interest, was considered part of the purchase price in 2002.

An independent valuation was performed to identify and value the acquired intangible assets. The significant asset identified related to core-developed technology. The fair values of the acquired intangible assets were determined utilizing the income approach based on projected revenues. The Company is amortizing the acquired intangibles over the lives of the estimated discounted cash flows assumed in the valuation models. The amortization period for the core-developed technology is 30 months. Goodwill will be assessed for impairment on an annual basis, or upon a significant event during a year, in accordance with SFAS 142, *Goodwill and Other Intangible Assets*.

The following is a summary of the Company's 2002 acquisitions, the respective purchase price and the allocation of the purchase price based on the foreign currency exchange rate and estimated fair values at the date of acquisition, and the weighted average useful lives of the identified intangible assets. The estimated fair values are preliminary and are subject to future adjustments.

	LineSoft	Wtd Ave Life (mos)	RER	Wtd Ave Life (mos)	eMobile	Wtd Ave Life (mos)
			($ in thousands)			
Fair value of net assets assumed	$ 4,753		$ 1,656		$ (100)	
Intangible assets—amortizable:						
Core/developed technology	5,600	29	3,230	49	3,600	30
Customer/software contracts	1,250	30	1,460	45	—	—
Other	565	14	120	47	410	28
IPR&D	7,200	n/a	—	n/a	—	n/a
Goodwill	24,156	n/a	7,873	n/a	5,507	n/a
Total	$ 43,524		$ 14,339		$ 9,417	

The goodwill related to the eMobile acquisition was fully deductible for tax purposes, while the goodwill related to LineSoft and RER is not deductible as the transactions were consummated through tax-free mergers. Goodwill and intangible assets were allocated to our defined reporting units based on the acquired entities percentage of forecasted revenue contributed to each reporting unit. The allocation is as follows:

	LineSoft	RER	eMobile
Reporting unit			
Electric	96%	85%	68%
Natural gas	3%	7%	17%
Water and public power	1%	8%	15%
	100%	100%	100%

The following pro forma results are based on the individual historical results of Itron, Inc. and LineSoft (prior to acquisition on March 12, 2002) with adjustments to give effect to the combined operations. The adjustments are related to amortization of acquired identified intangible assets, reduction of depreciation expense resulting from adjustments to the value of acquired fixed assets, elimination of interest expense on a line of credit paid in full, and the change in tax provision. The pro forma results are presented solely as unaudited supplemental information and do not necessarily represent what the combined results of operations or financial position would actually have been had the transaction in fact occurred at an earlier date, nor are they representative of results for any future date or period.

	Pro forma	
	2002	2001
	($ in thousands, except per share data)	
Revenues	$ 287,683	$ 250,116
Gross profit	132,647	101,708
Operating expenses	118,138	9,505
Other income (expense)	739	(4,027)
Net income	6,482	3,441
Basic net income per share	$ 0.33	$ 0.21
Diluted net income per share	$ 0.31	$ 0.19
Weighted average shares assumed outstanding		
Basic	19,477	16,488
Diluted	21,167	18,132

Note 6: Identified Intangible Assets

The gross carrying amount and accumulated amortization of the Company's intangible assets, other than goodwill, as of December 31, 2002 and 2001 were as follows:

	Gross Assets 12/31/02	Accumulated Amortization 12/31/02	Gross Assets 12/31/01	Accumulated Amortization 12/31/01
		($ in thousands)		
Core-developed technology	$ 12,437	$ (855)	$ —	$ —
Patents	7,088	(3,524)	7,086	(3,002)
Capitalized software	5,065	(5,065)	5,065	(5,065)
Distribution and production rights	2,480	(2,347)	2,475	(2,140)
Customer contracts	2,710	(354)	—	—
Other	1,107	(437)	—	—
Total identified intangible assets	$ 30,887	$ (12,582)	$ 14,626	$ (10,207)

The amortization expense on identified intangible assets was approximately $2.4 million in 2002, $737,000 in 2001 and $733,000 in 2000. Estimated amortization expense is as follows ($ in thousands):

Years ending December 31,	Estimated Amortization
2003	$ 4,459
2004	4,339
2005	3,588
2006	1,617
2007	1,149
Beyond 2007	3,153

Note 7: Goodwill

We completed our initial impairment test of goodwill during the second quarter of 2002, and our annual impairment test in the fourth quarter of 2002, and concluded in both cases that no impairment adjustment was required. The change in the amount of goodwill for the year ended December 31, 2002 is as follows ($ in thousands):

Beginning balance, January 1, 2002	$ 6,616
LineSoft goodwill acquired	24,156
RER goodwill acquired	7,873
eMobile goodwill acquired	5,542
Ending balance, December 31, 2002	$ 44,187

The following table reflects adjustments to our consolidated results had the adoption of SFAS No. 142 occurred at the beginning of 2000:

	Pro forma		
	2002	2001	2000
	($ in thousands)		
Net income, as reported	$ 8,683	$ 13,450	$ 2,706
Goodwill amortization, net of tax effect	—	456	628
Adjusted net income	$ 8,683	$ 13,906	$ 3,334
Basic net income per share, as reported	$ 0.45	$ 0.86	$ 0.18
Goodwill amortization, net of tax effect	—	0.03	0.04
Adjusted basic net income per share	$ 0.45	$ 0.89	$ 0.22
Diluted net income per share, as reported	$ 0.41	$ 0.75	$ 0.18
Goodwill amortization, net of tax effect	—	0.02	0.04
Adjusted diluted net income per share	$ 0.41	$ 0.77	$ 0.22

Note 8: Investments in Affiliates

At December 31, 2002, we had one investment in an entity that was accounted for under the equity method of accounting. We have a 30% interest in Servatron, Inc. (Servatron), a company that serves both as a contract manufacturer for our low volume products and as our handheld service repair depot. During December 2002, we liquidated our 50% investment in Ensite. Ensite was created as a partnership with another utility, and its purpose was to serve as a marketing vehicle for a defined territory comprised of and surrounding the utility's service territory. No gain or loss resulted from the liquidation. We also have a 10% ownership interest in International Utility Information Systems Corporation (IUISC), a company that develops home energy gateway communication technology, which is accounted for under the cost method as we cannot exercise significant influence over the company. Balances and equity in earnings relating to these investments are as follows:

	Balances at December 31,		Equity in earnings for the Year Ended December 31,	
	2002	2001	2002	2001
			($ in thousands)	
Servatron	$ 1,242	$ 1,145	$ 97	$ 85
Ensite	—	1,160	29	157
IUISC	500	500	—	—

Loans to Affiliates

We loaned $500,000 to Servatron, in addition to our equity investment, at an interest rate equal to prime plus 700 basis points through January 2003 and prime plus 800 basis points from January 2003 through January 2004. The loan was to mature in January 2004, but Servatron paid the balance in full during the year ended December 31, 2002.

In March 2002, we loaned approximately $2.0 million to Lanthorn Technologies (Lanthorn), an early stage startup firm that is developing internet-based energy monitoring and management software and services. Lanthorn has not yet produced any significant revenue. The form of the loan is a secured convertible note with a five year term. We may convert the note at any time into common stock of Lanthorn. If we had converted our note into equity as of December 31, 2002, it would have been converted into 19% of Lanthorn's common stock assuming that all granted stock options and other convertible debt of the firm were exercised or converted. We have also entered into a distribution and licensing agreement with Lanthorn, which gives us non-exclusive distribution and licensing rights.

During 2001, we invested $850,000 in an early stage company (Metering Services.Com Corporation) developing a meter reading service. The company ceased its operations during 2001 and we wrote-off our equity investment of $500,000 and a note receivable of $350,000.

Note 9: Short-term Borrowings and Long-term Debt

Short-term Borrowings

In February 2002, we obtained a new line of credit that expires on June 1, 2003, with a borrowing limit of $35 million secured by accounts receivable, inventory, and general intangibles excluding intellectual property. The available balance is reduced by outstanding letters of credit in the amount of $15.0 million at December 31, 2002. We paid an origination fee of 0.125% for the line of credit and will pay an annual commitment fee of 0.125% on the unused portion of the available line of credit. We paid an issuance fee of 0.9% per annum for outstanding letters of credit. There was no amount outstanding at December 31, 2002.

The former line of credit was terminated simultaneously with the signing of the new line in February 2002. Borrowings available under the former line of credit were based on qualified accounts receivable and inventory balances, and were secured by those accounts and specific cash accounts. At December 31, 2001, the maximum amount we could borrow under the former line of credit was $13.4 million. There was no amount outstanding at December 31, 2001.

Mortgage Note Payable

	At December 31,	
	2002	2001
	($ in thousands)	
Secured mortgage note payable to a shareholder with principal and interest payments of 9% until maturity on August 1, 2015. Paid in full in January 2002	$ —	$ 5,057

We incurred the above note in conjunction with the purchase of our headquarters and related manufacturing space in Spokane, Washington. In January 2002, we paid a discounted amount of $4.9 million, and satisfied the note in full. A gain of $200,000 is included in Other income (expense) resulting from the discounted payoff.

Project Financing

	At December 31,	
	2002	2001
	($ in thousands)	
Secured note payable with principal and interest payments of 7.6% until maturity on May 31, 2009	$ 5,447	$ 6,082

We incurred the above note in conjunction with project financing for one of our outsourcing contracts. The note is secured by the assets of the project. Principal payments due under the note are $685,000 in 2003, $739,000 in 2004, $797,000 in 2005, $860,000 in 2006, $927,000 in 2007 and $1.4 million thereafter.

Convertible Subordinated Debt

	At December 31,	
	2002	2001
	($ in thousands)	
Unsecured, convertible subordinated notes	$ —	$ 53,313

We completed a $63.4 million convertible subordinated note offering in March and April of 1997. Interest of 6 3/4% on the notes was payable semi-annually on March 31 and September 30 of each year until maturity on March 31, 2004. In February 1999, we exchanged $22 million principal amount of original notes for $15.8 million principal amount of exchange notes. The exchange notes had the same maturity date, interest payment dates and rate of interest as the original notes. Both the original notes and the exchange notes had no sinking fund requirements and were redeemable, in whole or in part, at our option at any time on or after April 4, 2000, (for the original notes) or March 12, 2002 (for the exchange notes). The notes were convertible, in whole or in part, at the option of the holder at any time prior to maturity at a price of $23.70 per common share for the original notes and $9.65 per common share for the exchange notes. In March 2000, we repurchased $3.8 million of notes from a holder for $2.1 million. The gains on the exchange and repurchase transactions were included within Other income (expense). During 2001, $146,000 of notes were converted to common stock by individual holders. During 2002, the remaining $53.3 million of convertible notes, along with accrued interest of $142,000, were converted into common stock by individual holders, less unamortized debt issuance costs of $347,000.

Note 10: Fair Values of Financial Instruments

The estimated fair value of financial instruments has been determined by using available market information and appropriate valuation methodologies. The values provided are representative of fair values only as of December 31, 2002 and 2001 and do not reflect subsequent changes in the economy, interest and tax rates, and other variables that may affect determination of fair value. The following methods and assumptions were used in estimating fair values.

Cash, cash equivalents, short-term investments and accounts receivable: The carrying value approximates fair value due to the short maturity of these instruments.

Mortgage note payable: The fair value is estimated based on current borrowing rates available for similar debt.

Project financing: The fair value is estimated based on quoted spreads above treasury rates for similar issues.

Convertible subordinated debt: The fair value is estimated based on the current trading activity of the notes.

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	($ in thousands)			
Cash, cash equivalents, short-term investments and accounts receivable	$ 90,135	$90,135	$ 95,126	$95,126
Mortgage note payable	—	—	5,057	5,578
Project financing	5,447	5,647	6,082	6,013
Convertible subordinated debt	—	—	53,313	96,481

Note 11: Restructurings

In 1999, the Company recorded a provision totaling $16.7 million for restructuring activities, including facility consolidations, scaling back of products offered, and a number of other actions in order to improve efficiencies and reduce costs. The provision included $9.2 million related to employee severance liabilities, which were substantially liquidated as of December 31, 2002, and $4.8 million related to asset impairments. The remaining original charge of $2.7 million related to estimated future lease payments for abandoned facilities. The provision estimate is dependent on the Company's continued ability to sublease vacant space under a non-cancelable operating lease through 2006. The provision is recorded within accrued expenses.

In the fourth quarter of 2002, the Company announced its plans to restructure the European operations and recorded a provision totaling $3.1 million. The restructure will result in the closure of the Company's Vienne, France office, a reduction in workforce, the consolidation of product development efforts into existing Company locations and the outsourcing of select production efforts. The Company anticipates completion of the restructure plan by mid-2003. The provision included approximately $866,000 related to lease terminations, $1.3 million related to employee severance liabilities, $347,000 related to inventory and fixed asset writedowns, and $641,000 related to the reclassification of cumulative translation adjustments. The lease terminations provision is recorded within accrued expenses and the employee severance provision is recorded within wages and benefits payable.

The restructure involves a reduction in workforce of approximately 30 employees in Vienne, France. These employees consist of personnel from product development, sales and support services, and general administration. As of December 31, 2002, 15 employees had been terminated, however no benefits had been paid or charged against the provision.

The accrued liabilities associated with company-wide restructuring efforts were $2.4 million and $578,000 at December 31, 2002 and 2001 and consisted of the following ($ in thousands):

	Severance and related costs	Lease termination and related costs
Provision balance at December 31, 2000	$ 159	$ 2,616
Accrual adjustments	207	(1,426)
Cash payments	(235)	(743)
Non-cash charges	—	—
Provision balance at December 31, 2001	$ 131	$ 447
Accrual adjustments	1,263	866
Cash payments	(131)	(136)
Non-cash charges	—	—
Provision balance at December 31, 2002	$ 1,263	$ 1,177

Note 12: Development Agreements

We received funding to develop certain products under joint development agreements with several companies. We retain the intellectual property rights to the products that are developed. Funding received under these agreements is credited against product development expenses. The agreements require us to pay royalties if successful products are developed and sold. Additionally, we are required to pay royalties on future sales of products incorporating certain AMR technologies. Funding received and royalty expense under these arrangements is as follows:

	Year Ended December 31,		
	2002	2001	2000
	($ in thousands)		
Funding received	$ 563	$ 391	$ —
Royalties paid	$ 786	$ 605	$ 800

Note 13: Sale of Outsourcing Equipment

In March 2000, we sold our network-based automated meter reading (AMR) system in Pittsburgh, that we used to provide Duquesne Light Company with meter information for billing and other purposes, to an affiliate of Duquesne for $33 million. Negotiations commenced in 1999. In 1999, in anticipation of the sale, we recorded a $49.8 million loss on the sale, which was included in cost of revenues—service for the Electric business unit. The loss consisted of a $34.5 million write-off of the Duquesne contracts receivable (both current and non-current) and an $18.6 million impairment of the assets sold, which were partially offset by the reversal of a previously recognized forward loss of $3.3 million. Impaired assets sold included hardware and software installed at the customer's site. The assessment of the impairment was based on the carrying value of the assets, net of the sales proceeds, minus selling costs.

In March 2000, we entered into a warranty and maintenance agreement with the purchasing Duquesne affiliate, pursuant to which we provide certain maintenance and support services for the system through December 31, 2013. We will receive approximately $10 million ratably over the term of those services and expect to incur approximately $24.3 million in expenses. As such, we recorded a forward loss of $14.3 million in the fourth quarter of 1999 related to this agreement. In connection with our performance responsibilities, we have provided a $5 million standby letter of credit.

Note 14: Income Taxes

A reconciliation of income taxes at the U.S. federal statutory rate of 35% to the consolidated effective tax for continuing operations is as follows:

The domestic and foreign components of income before taxes were:

	Year Ended December 31,		
	2002	2001	2000
	($ in thousands)		
Domestic	$ 22,195	$ 21,590	$ 7,839
Foreign	(3,336)	(224)	699
Income before income taxes	$ 18,859	$ 21,366	$ 8,538
Expected federal income tax provision	$ 6,600	$ 7,478	$ 2,988
Change in valuation allowance	1,200	(1,222)	(1,760)
State income taxes	1,172	231	221
Goodwill amortization	–	317	309
Tax credits	17	276	341
Foreign operations	(2,301)	861	917
Meals and entertainment	164	102	103
Nondeductible charges for purchased research and development	2,808	–	–
Other, net	516	(127)	151
Total provision for income taxes	$ 10,176	$ 7,916	$ 3,270

The provision for income taxes consisted of the following:

	Year Ended December 31,		
	2002	2001	2000
	($ in thousands)		
Current:			
Federal	$ 10,755	$ 4,589	$ 1,747
State and local	108	264	(49)
Foreign	208	9	6
Total current	11,071	4,862	1,704
Deferred:			
Federal	(652)	3,130	1,451
State and local	1,064	(39)	455
Foreign	(2,508)	1,185	1,420
Total deferred	(2,096)	4,276	3,326
Change in valuation allowance	1,201	(1,222)	(1,760)
Total provision for income taxes	$ 10,176	$ 7,916	$ 3,270

Deferred income taxes consisted of the following:

	Year Ended December 31,		
	2002	2001	2000
	($ in thousands)		
Deferred tax assets			
Loss carryforwards	$ 23,168	$ 22,688	$ 24,304
Tax credits	6,620	6,559	6,725
Accrued expenses	8,818	3,734	3,101
Inventory valuation	2,162	1,475	1,994
Depreciation and amortization	—	—	531
Long-term contracts	570	1,977	3,305
Other, net	—	345	—
Total deferred tax assets	41,338	36,778	39,960
Deferred tax liabilities			
Acquisitions	—	—	(86)
Depreciation and amortization	(2,825)	(698)	—
Other, net	(1,800)	(1,459)	(977)
Total deferred tax liabilities	(4,625)	(2,157)	(1,063)
Valuation allowance	(6,736)	(5,535)	(6,758)
Net deferred tax assets	$ 29,977	$ 29,086	$ 32,139

Federal research and development tax credits of $4.9 million expire over 2003 – 2022. The tax credit carryforward amount includes approximately $345,000 from companies acquired during 2002. Federal loss carryforwards of $45.3 million expire over 2018 – 2022. The loss carryforward amount includes approximately $21.7 million from companies acquired during 2002. We also have alternative minimum tax credits, totaling $1.7 million that are available to offset future tax liabilities indefinitely.

Valuation allowances of $6.7, $5.5 and $6.8 million in 2002, 2001 and 2000, respectively, were provided for carryforwards attributable to various items for which the Company may not receive future benefits. The tax benefit associated with exercise of stock options during 2002 was $5.1 million.

We assigned approximately $5.0 million of net deferred tax assets as a result of the 2002 acquisitions.

Note 15: Shareholder Rights Plan

On November 4, 2002, the Board of Directors authorized the implementation of a Shareholder Rights Plan and declared a dividend of one preferred share purchase right (a Right) for each outstanding share of common stock, without par value. The Rights will separate from the common stock and become exercisable following the earlier of (i) the close of business on the tenth business day after a public announcement that a person or group (including any affiliate or associate of such person or group) has acquired beneficial ownership of 15% or more of the outstanding common shares and (ii) the close of business on such date, if any, as may be designated by the Board of Directors following the commencement of, or first public disclosure of an intent to commence, a tender or exchange offer for outstanding common shares which could result in the offeror becoming the beneficial owner of 15% or more of the outstanding common shares (the earlier of such dates being the distribution date). After the distribution date, each Right will entitle the holder to purchase, for $160.00, one one-hundredth (1/100) of a share of Series R Cumulative Participating Preferred Stock of the Company (a Preferred Share) with economic terms similar to that of one common share.

In the event a person or group becomes an acquiring person, the Rights will entitle each holder of a Right to purchase, for the purchase price, that number of common shares equivalent to the number of common shares which at the time of the transaction would have a market value of twice the purchase price. Any Rights that are at any time beneficially owned by an acquiring person will be null and void and nontransferable and any holder of any such Right will be unable to exercise or transfer any such Right. If, at any time after any person or group becomes an acquiring person, the Company is acquired in a merger or other business combination with another entity, or if 50% or more of its assets or assets accounting for 50% or more of its net income or revenues are transferred, each Right will entitle its holder to purchase, for the purchase price, that number of shares of common stock of the person or group engaging in the transaction having a then current market value of twice the purchase price. At any time after any person or group becomes an acquiring person, but before a person or group becomes the beneficial owner of more than 50% of the common shares, the Board of Directors may elect to exchange each Right for consideration per Right consisting of one-half of the number of common shares that would be issuable at such time on the exercise of one Right and without payment of the purchase price. At any time prior to any person or group becoming an acquiring person, the Board of Directors may redeem the Rights in whole, but not in part, at a price of $0.01 per Right, subject to adjustment as provided in the Rights Agreement. The Rights are not exercisable until the distribution date and will expire on December 11, 2012, unless earlier redeemed or exchanged by the Company.

The terms of the Rights and the Rights Agreement may be amended without the approval of any holder of the Rights, at any time prior to the distribution date. Until a Right is exercised, the holder thereof, as such, will have no rights as a shareholder of the Company, including, without limitation, the right to vote or receive dividends. In order to preserve the actual or potential economic value of the Rights, the number of Preferred Shares or other securities issuable upon exercise of the Right, the purchase price, the redemption price and the number of Rights associated with each outstanding common share are all subject to adjustment by the Board of Directors pursuant to certain customary antidilution provisions. The Rights distribution should not be taxable for federal income tax purposes. Following an event that renders the Rights exercisable or upon redemption of the Rights, shareholders may recognize taxable income.

Note 16: Employee Benefit Plans

Employee Savings Plan

We have an employee incentive savings plan in which substantially all employees are eligible to participate. Employees may contribute, on a tax-deferred basis, up to 22% of their salary, 50% of the first 6% of which we match in cash, subject to statutory limitations. The expense for our matching contribution was $1.4 million in 2002, $1.1 million in 2001 and $838,000 in 2000.

Stock Option Plans

At December 31, 2002, we had three stock-based compensation plans in effect, only one of which we are currently granting options under, which are described below. We apply APB 25 and related interpretations in accounting for our plans. The following table summarizes information about stock options (including the weighted average remaining contractual life and the weighted average exercise price) outstanding at December 31, 2002:

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	Shares (in 000's)	Remaining Life (years)	Weighted Average Price	Shares (in 000's)	Weighted Average Price
$ 4.00 – $ 6.75	651	6.39	$ 5.67	465	$ 5.31
$ 7.00 – $ 8.66	1,406	7.71	7.43	455	7.76
$13.00 – $20.00	1,021	7.60	15.59	358	16.67
$21.06 – $27.52	367	6.82	23.90	164	22.08
$30.32 – $32.35	17	9.10	31.65	3	32.35
$58.75	12	2.84	58.75	12	58.75
	3,474	7.32	$ 11.54	1,457	$ 11.25

Under our three stock option plans, we have granted options to purchase shares of common stock to employees and non-employee directors at prices no less than the fair market value on the date of grant. Because all stock options were issued at fair value, no compensation cost has been recognized. Those options terminate ten years from the date granted. For grants to employees, and non-employee directors, the options become fully exercisable within three or four years from the date of grant. In addition, the plan provides for the granting of stock to non-employee directors. The price range of options exercised was $4.00 to $24.50 in 2002, $0.86 to $24.50 in 2001 and $0.86 to $8.50 in 2000. At December 31, 2002, there were 3.8 million shares of authorized but unissued common stock under the plans, of which options for the purchase of 320,024 shares were available for future grants. Share amounts (in thousands) and weighted average exercise prices are as follows:

	Year Ended December 31,					
	2002		2001		2000	
	Shares	Price	Shares	Price	Shares	Price
Outstanding at beginning of year	3,402	$ 9.66	3,180	$ 9.97	2,910	$ 10.36
Granted	849	17.45	1,117	8.05	945	7.37
Exercised	(737)	9.92	(842)	8.74	(131)	5.18
Cancelled	(40)	8.38	(53)	8.29	(544)	8.71
Outstanding at end of year	3,474	11.54	3,402	9.66	3,180	9.97
Options exercisable at year end	1,457	$ 11.25	1,608	$ 11.60	1,657	$ 11.80

Employee Stock Purchase Plan

Under our Employee Stock Purchase Plan, we are authorized to issue shares of common stock to our eligible employees who have completed three months of service, work more than 20 hours each week and are employed more than five months in any calendar year. Employees who own 5% or more of our common stock are not eligible to participate in the Plan. Under the terms of the Plan, eligible employees can choose payroll deductions each year of up to 10% of their regular cash compensation. Such deductions are applied toward the discounted purchase price of our common stock. The purchase price of the common stock is 85% of the fair market value of the stock as defined in the Plan. Under the Plan we sold 19,347, 111,459 and 89,581 shares to employees in 2002, 2001 and 2000, respectively.

Note 17: Other Related Party Transactions

During 2000, 2001, and 2002 three customers were also shareholders of the Company and had officers who held positions on our Board of Directors. In addition, one of those customers had a greater than 10% ownership in 2000. Revenues from these customers were $4.4 million in 2002, $4.0 million in 2001 and $3.6 million in 2000. Accounts receivable from these customers were approximately $34,000 and $321,000 at December 31, 2002 and 2001, respectively. Interest expense related to the mortgage note payable to one of these customers was approximately $49,000 in 2002, $464,000 in 2001 and $532,000 in 2000. In January 2002, we paid $4.9 million, which represents a $200,000 discount, to this shareholder to fully satisfy our mortgage note.

The Company has a 30% interest in an affiliate that serves both as a contract manufacturer for our low volume products and as our handheld service repair depot. Purchases of low volume products and repair services from the affiliate were $13.4 million in 2002, $14.8 million in 2001 and $8.1 million in 2000. The Company subleases a portion of its Spokane facility to this affiliate. The lease agreement commenced in May 2000 and terminates in May 2003. Under the current lease, base monthly lease amounts payable to the Company are $14,430. In November 2002, the affiliate notified us of its intent to exercise the renewal option for one year. Lease payments will be based on current market rates. The affiliate pays the Company for its share of operating cost of the subleased premises. The costs payable by the affiliate to the Company are based on the square footage of the leased premises. Accounts receivable from the affiliate were approximately $144,000 and $99,000 at December 31, 2002, and 2001, respectively. Additionally, we guarantee lease payments for certain equipment leased by the affiliate. The maximum future lease obligation of the guarantee at December 31, 2002 was $659,000.

In connection with the acquisition of LineSoft in March 2002, the Company assumed a pre-existing loan in the amount of $2.0 million to the former Chief Executive Officer of LineSoft by renewing and replacing it with a new non-recourse promissory note, secured with the Company’s common stock, in the same amount. The replacement note matures May 11, 2003, and bears interest at an annual rate of 6%. The balance of the loan at December 31, 2002 was $473,000.

During 2002, the Company invested approximately $2.0 million in an early stage startup firm that is developing internet-based energy monitoring and management software and services. The firm has not yet produced significant revenues. The form of the investment is a secured convertible note with a term of five years. The note bears interest at an annual rate of 7%. We may convert the note at any time into the common stock of the firm. If we had converted our note into equity at December 31, 2002, it would have been converted into 19% of the firm’s common stock assuming that all granted stock options and other convertible debt of the firm were exercised or converted. We have also entered into a distribution and licensing agreement with the firm, which gives us non-exclusive distribution and licensing rights.

In March 2001, we loaned $750,000 at an interest rate of 7% per annum to a director. The loan was collateralized by 300,000 shares of our common stock. The balance of the secured promissory note, including principal and interest, was paid in full by November 2001.

The Company leases a facility from former owners of RER, who are now current employees. Base monthly lease expense is $29,000 and the agreement terminates in December 2003.

Note 18: Commitments and Contingencies

Commitments

We have noncancelable capital leases for computer equipment and software, and operating leases for computers, office, production and storage space expiring at various dates through December 2009. Rent expense

under the Company's operating leases was $5.7 million in 2002, $3.2 million in 2001 and $2.3 million in 2000. Receipts under the Company's noncancelable subleases were $391,000 in 2002, $353,000 in 2001 and $315,000 in 2000. Assets under capital leases are included in the consolidated balance sheets as follows:

	At December 31,	
	2002	2001
	($ in thousands)	
Computers and software	$ 145	$ 118
Accumulated depreciation	(122)	(103)
Net capital leases	$ 23	$ 15

Future minimum payments and sublease revenues at December 31, 2002, under the aforementioned leases and other noncancelable operating leases and subleases with initial or remaining terms in excess of one year are as follows ($ in thousands):

	Minimum Payments	Sublease Revenues	Payments, Net
2003	$ 6,579	$ 318	$ 6,261
2004	4,236	231	4,005
2005	2,609	217	2,392
2006	1,674	184	1,490
2007	1,433	—	1,433
Thereafter	799	—	799
Total minimum lease payments	$ 17,330	$ 950	$ 16,380

Included in the 2003 future minimum payments are approximately $737,000 in lease commitments which have been accrued for in 2002 related to the International business unit restructure charge.

During 2002, the Company entered into an exclusive distribution agreement with an affiliate. The agreement requires Itron to purchase a minimum of 2,500 units over a three year period. Minimum payments totaling $1.3 million are due through the end of 2003.

Contingencies

We maintain performance and bid bonds for certain customers. The performance bonds usually cover the installation phase of a contract and may on occasion cover the operations and maintenance phase of outsourcing contracts. We have standby letters of credit to guarantee our performance under certain contracts. The outstanding amounts of standby letters of credit were $15.0 million and $11.6 million at December 31, 2002 and 2001, respectively. Additionally, we guarantee lease payments for certain equipment leased by an affiliated company. In the event that the affiliate is unable to pay a monthly lease obligation, Itron would be required to make the payment. If Itron does not make the payment, the equipment would be returned to the lessor. The maximum future lease obligation of the guarantee at December 31, 2002 was $659,000. In the event that the equipment is not in working condition, Itron would be obligated to pay for the equipment to be returned to working condition. The lease and our guarantee terminate in 2006.

On April 3, 1999, the Company served Ralph Benghiat, an individual, with a complaint seeking a declaratory judgment in the U.S. District Court for the District of Minnesota (Civil Case No. 99-cv-501) that a patent owned by Benghiat (patent no. 5,757,456, the '456 patent) is invalid and not infringed by Itron's handheld meter reading devices. On April 23, 1999, Benghiat filed a counterclaim alleging patent infringement by the same devices. Both lawsuits were filed in the U.S. District Court for the District of Minnesota. The case went to

trial before a jury on December 9, 2002. On December 20, 2002 the jury returned a verdict and found that Itron's manual entry handheld meter reading devices sold in the U.S. since April 1993 infringed the '456 patent. The jury awarded Benghiat damages in an amount of $7.4 million dollars, which represents a royalty of approximately 5% on revenues from infringing products sold from 1993 to the date of the verdict. Itron accrued that amount in 2002. The jury also found that Itron's infringement was willful. As such, Benghiat has asked the court to treble the damages and award him attorney's fees. He has not yet asked the court to enjoin the sale by Itron of infringing products but he is expected to do so. Although Itron continues to believe that its products do not infringe the '456 patent, it has nevertheless redesigned all of its current products that were found to infringe by the jury and has received an opinion of its outside patent counsel that the redesigned products do not infringe the '456 patent. The court has not rendered judgment based on the jury's verdict and will not do so until a number of post-trial motions by both parties have been made and ruled on by the court. This is not expected to happen until April 2003 or later. Itron is also considering what grounds if any it has to appeal the judgment of the court when rendered to the Federal Circuit Court of Appeals in Washington D.C. There can be no assurance, however, that Itron will prevail on appeal. Any further appeal or litigation related to the '456 patent, regardless of its outcome, would probably be costly and may require significant time and attention of our key management and technical personnel.

The Company is a party to various other lawsuits and claims, both as plaintiff and defendant, and have contingent liabilities arising from the conduct of business, none of which, in our opinion, are expected to have a material effect on our financial position or results of operations. We believe that we have made adequate provisions for such contingent liabilities.

Note 19: Segment Information

We are internally organized around four business units focused on the customer segments that we serve. These business units are Electric, Natural Gas, Water & Public Power, and International. The Electric, Natural Gas, and Water & Public Power business units focus on the U.S. and Canadian business territories. The International business unit focuses on the following business territories: (1) Pacific Rim and Latin America (which includes Japan, South Korea, Hong Kong, Caribbean and Latin America), (2) Europe, Middle East and Africa, and (3) Oceania and Southeast Asia.

Revenues for each business unit may include hardware, software license fees, custom software development, field and project management services, engineering, consulting and installation services, post-sale maintenance support and outsourcing services. Inter-segment revenues are immaterial. Within each business unit, costs of sales are based on standard costs, which include materials, direct labor and an overhead allocation based on projected production for the year. Variances from standard costs are reported in Corporate costs of sales and are not allocated to the business units. Assets and liabilities are not allocated to the business units for management purposes. In addition to assets and liabilities, corporate operating expenses, interest revenue, interest expense, equity in the income of investees accounted for by the equity method, income tax expense, and amortization expense are not allocated to the business units, nor included in the measure of segment profit or loss for management purposes. Approximately 50% of depreciation expense is allocated to the business units.

Management has two primary measures for each of the operating segments, revenue and operating income. Operating income is defined as revenue, less (a) direct costs associated with that revenue, (b) operating expenses directly incurred by the segment, and (c) allocations of basic services (such as floor space and communication expense), warranty and miscellaneous service related expenses. Operating expenses directly associated with each segment may include sales, marketing, product development or administrative expenses. Certain amounts in the 2000 financial statements have been reclassified to conform to the 2002 and 2001 presentation. Corporate expenses, which include product development, marketing, miscellaneous manufacturing and certain other

corporate expenditures, are included in the table below to reconcile business unit activity to the consolidated statements of operations ($ in thousands):

	2002	2001	2000
Revenues			
Electric	$ 136,782	$ 99,722	$ 61,985
Natural Gas	50,353	35,694	39,836
Water & Public Power	84,069	65,072	60,123
International	13,638	25,067	17,997
Total revenues	$ 284,842	$ 225,555	$ 179,941
Gross profit (loss)			
Electric	$ 62,968	$ 42,352	$ 26,985
Natural Gas	28,818	19,370	22,361
Water & Public Power	35,771	28,791	26,450
International	5,094	8,621	7,753
Corporate	(382)	(1,275)	(12,700)
Total gross profit	$ 132,269	$ 97,859	$ 70,849
Operating income (loss)			
Electric	$ 54,698	$ 37,201	$ 23,423
Natural Gas	26,283	16,738	19,956
Water & Public Power	31,228	25,295	23,660
International	(5,242)	1,839	1,602
Corporate	(88,825)	(55,213)	(58,991)
Total operating income	$ 18,142	$ 25,860	$ 9,650

The Company had one Electric business unit customer, which individually accounted for 12% and 15% of total Company revenues during 2002 and 2001, respectively. There were no customers who accounted for more than 10% of total Company revenues in 2000.

Note 20: Subsequent Events

Silicon Energy Corporation Acquisition: On March 4, 2003, Itron acquired Silicon Energy for merger consideration equal to $71.2 million less the repayment of approximately $4.2 million in convertible debt and other consideration primarily concerning the funding of Silicon Energy bonus payments. Of the merger consideration, $6.4 million was held back as an indemnification escrow amount. In addition to the $71.2 million mentioned above, other transaction costs of approximately $3 million were incurred. The amount of merger consideration is subject to a working capital adjustment that will be finalized within 45 days from closing. At closing, no working capital adjustment was deemed necessary. If a working capital adjustment is required, the amount of merger consideration will be adjusted accordingly.

Silicon Energy is a privately-held California based corporation that provides enterprise energy management solutions that enable utilities, energy service providers, governments, and commercial and industrial energy users to efficiently manage and apply energy consumption data, optimize the delivery and use of energy, mitigate risk, control energy costs, and optimize energy procurement.

Itron acquired Silicon Energy with a portion of cash on hand and the proceeds from a new $50 million three-year term loan, repayable over three years with level principal payments. The interest on the term loan at closing was 3.8125% and will vary according to market rates and the Company’s consolidated leverage ratio.

The Company is required under the term loan to at all times, after 90 days after the closing date, maintain in effect one or more interest rate agreements with an aggregate notional principal amount of not less than 50% of the aggregate principal amount of the term loan with a term of not less than two years. The effect of the interest rate agreements will be to substantially fix or limit the interest rate on a portion of term loan principal.

The term loan is a component of a new $105 million three-year credit facility that was established coincident with the closing of the acquisition. In addition to the term loan, the new credit facility has a $55 million revolving loan feature. Of this amount, $20 million may only be used to collateralize an appeals bond in connection with the Benghiat patent litigation matter. Of the remaining $35 million of availability, $16.0 million is currently utilized by outstanding standby letters of credit.

The new credit facility is secured by substantially all tangible and intangible assets, including the stock of domestic subsidiaries and a portion of the stock of foreign subsidiaries if the later meet certain size tests, except assets related to outsourcing contracts that are or may be financed with a project financing.

Under the purchase method of accounting, the purchase price will be allocated to the assets acquired and the liabilities assumed based on their estimated fair values. The valuations of the assets and liabilities acquired are currently being performed by the Company and an independent appraiser. As the valuations are in process at this time, it is not now practicable for us to provide an opening balance sheet reflecting the fair values.

Reorganization: In January 2003, Itron announced a reorganization of its Energy Information Solutions (EIS) product group in Raleigh, North Carolina, which is responsible for product development and support activities for MV-90. The reorganization was driven by continued slow activity in the wholesale energy markets. Approximately 40 positions in Raleigh were eliminated. An estimated reorganization expense of $2.0 to $2.5 million will be reflected in 2003.

Quarterly Results (Unaudited)

Quarterly results are as follows ($ in thousands, except per share and stock price data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
2002					
Statement of operations data:					
Total revenues	$ 62,075	$ 72,439	$ 73,057	$ 77,271	$ 284,842
Gross profit	27,287	33,851	34,349	36,782	132,269
Net income (loss)	$ (2,970)(a)	$ 6,325	$ 5,968	$ (640)(b)	$ 8,683
Basic net income (loss) per share	$ (0.18)	$ 0.32	$ 0.29	$ (0.03)	$ 0.45
Diluted net income (loss) per share	$ (0.18)	$ 0.28	$ 0.27	$ (0.03)	$ 0.41
Stock Price:					
High	$ 32.30	$ 36.50	$ 26.98	$ 25.90	$ 36.50
Low	22.25	19.99	12.53	16.12	12.53
2001					
Statement of operations data:					
Total revenues	$ 47,471	$ 53,014	$ 60,855	$ 64,215	$ 225,555
Gross profit	18,681	23,142	27,053	28,983	97,859
Net income	$ 1,489	$ 3,158	$ 3,904	$ 4,899	$ 13,450
Basic net income per share	$ 0.10	$ 0.20	$ 0.25	$ 0.31	$ 0.86
Diluted net income per share	$ 0.09	$ 0.18	$ 0.21	$ 0.26	$ 0.75
Stock Price:					
High	$ 12.50	$ 18.98	$ 23.84	$ 34.21	$ 34.21
Low	3.50	10.25	14.25	20.13	3.50

(a) Net loss primarily due to $7.4 million write-off of IPR&D associated with LineSoft acquisition.

(b) Net loss primarily due to $7.4 million litigation accrual and $3.1 million restructuring expense.

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no disagreements with the Company's independent accountants on accounting and financial disclosure matters within the three year period ended December 31, 2002, or in any period subsequent to such date.

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The section entitled "Election of Directors" appearing in our Proxy Statement for the Annual Meeting of Shareholders to be held on May 23, 2003 (the 2002 Proxy Statement) sets forth certain information with regard to our directors and is incorporated herein by reference.

Certain information with respect to persons who are or may be deemed to be executive officers of Itron is set forth under the caption "Executive Officers of the Registrant" in Part I of this Annual Report on Form 10-K.

ITEM 11: EXECUTIVE COMPENSATION

The section entitled "Executive Compensation" appearing in the 2002 Proxy Statement sets forth certain information (except for those sections captioned "Compensation Committee Report on Executive Compensation" and "Performance Graph", which are not incorporated by reference herein) with respect to the compensation of management of the Registrant and is incorporated herein by reference.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The section entitled "Security Ownership of Certain Beneficial Owners and Management" appearing in the 2002 Proxy Statement sets forth certain information with respect to the ownership of the Registrant's common stock and is incorporated herein by reference.

The section entitled "Equity Compensation Plan Information" appearing in the 2002 Proxy Statement sets forth certain information required by Item 201(d) of Regulation S-K and is incorporated herein by reference.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The section entitled "Certain Relationships and Related Transactions" appearing in the 2002 Proxy Statement sets forth certain information with respect to certain business relationships and transactions between the Registrant and its directors and officers and is incorporated herein by reference.

ITEM 14: DISCLOSURE CONTROLS AND PROCEDURES

(a) *Evaluation of disclosure controls and procedures.* As of March 12, 2003, an evaluation was performed under the supervision and with the participation of our Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-14(c) and 15d-14(c)) under the Securities Exchange Act of 1934 as amended. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of December 31, 2002.

(b) *Changes in internal controls.* There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART IV

ITEM 15: EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

2) List of Financial Statement Schedules:

Schedule II—Valuation and Qualifying Accounts

3) Exhibits:

Exhibit Number	Description of Exhibits
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2.2	Agreement and Plan of Merger By and Among Regional Economic Research, Inc., RER Combination, Inc., and Itron, Inc. dated September 9, 2002.
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2.4	Agreement and Plan of Merger By and Among Silicon Energy Corp., Shadow Combination, Inc., and Itron, Inc. dated January 18, 2003. (filed as Exhibit 2.1 to the registrant's Report on Form 8-K dated March 19, 2003—File No. 0-22418)
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10.6	Executive Deferred Compensation Plan. * (filed as Exhibit 10.12 to the registrant's Registration Statement on Form S-1 (Registration #33-49832), as amended, filed on July 22, 1992)
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10.8	Schedule of directors and executive officers who are parties to Indemnification Agreements (see Exhibit 10.7 hereto) with the Registrant.
10.9	Employment Agreement between the Registrant and David G. Remington dated February 29, 1996.* (filed as Exhibit 10.16 to the registrant's 1995 Annual Report on Form 10-K dated March 30, 1996—File No. 0-22418)
10.10	Office Lease between the Registrant and Woodville Leasing Inc. dated October 4, 1993. (filed as Exhibit 10.24 to the registrant's 1993 Annual Report on Form 10-K filed on March 30, 1994—File No. 0-22418)
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99.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002

***** Management contract or compensatory plan or arrangement.

4) Reports on Form 8-K this quarter:

On December 13, 2002, we filed a Form 8-K under Items 5 and 7 detailing a new Shareholder Rights Plan and declaring a dividend distribution of one preferred share purchase right on each outstanding share of Itron common stock.

On December 23, 2002, we filed a Form 8-K under Items 5 and 7 announcing the jury verdict against Itron in connection with a patent infringement lawsuit.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Spokane, State of Washington, on the 27th day of March, 2003.

ITRON, INC.

By: /s/ DAVID G. REMINGTON

David G. Remington
Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities indicated below on the 27th day of March, 2003.

Signature	Title
/s/ LEROY D. NOSBAUM **LeRoy D. Nosbaum**	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/s/ ROBERT D. NEILSON **Robert D. Neilson**	President and Chief Operating Officer and Director
/s/ DAVID G. REMINGTON **David G. Remington**	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ MICHAEL B. BRACY **Michael B. Bracy**	Director
/s/ MICHAEL J. CHESSER **Michael J. Chesser**	Director
/s/ TED C. DEMERRITT **Ted C. DeMerritt**	Director
/s/ JON E. ELIASSEN **Jon E. Eliassen**	Director
/s/ THOMAS S. FOLEY **Thomas S. Foley**	Director
/s/ THOMAS S. GLANVILLE **Thomas S. Glanville**	Director
/s/ MARY ANN PETERS **Mary Ann Peters**	Director
/s/ S. EDWARD WHITE **S. Edward White**	Director
/s/ GRAHAM M. WILSON **Graham M. Wilson**	Director

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, LeRoy D. Nosbaum, certify that:

1. I have reviewed this annual report on Form 10-K of Itron, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ LEROY D. NOSBAUM

LeRoy D. Nosbaum
Chairman of the Board and Chief Executive Officer

Date: March 27, 2003

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David G. Remington, certify that:

1. I have reviewed this annual report on Form 10-K of Itron, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ DAVID G. REMINGTON

David G. Remington
Vice President and Chief Financial Officer

Date: March 27, 2003

Schedule II: VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at beginning of period	Additions: Charged to costs and expenses	Deductions	Balance at end of period: Current	Balance at end of period: Non current
		($ in thousands)			
Year ended December 31, 2000:					
Short and long-term warranty	$ 6,862	$ 3,801	$ 4,929	$ 5,008	$ 726
Allowance for doubtful accounts	1,311	570	737	1,144	—
Year ended December 31, 2001:					
Short and long-term warranty	$ 5,734	$ 4,407	$ 3,814	$ 3,229	$ 3,098
Allowance for doubtful accounts	1,144	2,129	1,846	1,427	—
Year ended December 31, 2002:					
Short and long-term warranty	$ 6,327	$ 5,262	$ 2,150	$ 4,567	$ 4,872
Allowance for doubtful accounts	1,427	839	975	1,291	—

EXHIBIT INDEX

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***** Management contract or compensatory plan or arrangement.

EXHIBIT 2.2

AGREEMENT AND PLAN OF MERGER

By and Among

REGIONAL ECONOMIC RESEARCH, INC.,

RER COMBINATION, INC.

and

ITRON, INC.

September 9, 2002

CONTENTS

Exhibits

A - Form of Escrow Agreement

B - Form of Employee Agreement

C - Articles of Incorporation of the Combination Company

D - Bylaws of the Combination Company

E - Support Agreement [Sebold]

F - Support Agreement [McMenamin]

G - Form of Employee Proprietary Information and Inventions Agreement

H - Form of Transmittal Letter

I - Opinion of Procopio, Cory, Hargreaves & Savitch LLP

J - Opinion of Perkins Coie LLP

Schedules

Company Disclosure Schedule

4.1(i) - Financial Statements

4.1(p) - Key Employees and Technology Employees

4.1(x) - Company Backlog as of June 1, 2001 and May 31, 2002

5.10 - List of Company Employees

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER, dated as of September 9, 2002 (this "Agreement"), is by and among REGIONAL ECONOMIC RESEARCH, INC., a California corporation (the "Company"), RER COMBINATION, INC., a California corporation and wholly-owned subsidiary of Itron (the "Combination Company"), and ITRON, INC., a Washington corporation ("Itron").

RECITALS

A. The parties hereto desire to consummate a merger whereby the Combination Company will be merged with and into the Company (the "Merger"), all upon the terms and subject to the conditions set forth in this Agreement and in accordance with the California Corporations Code, as amended (the "CCC"), whereby the Company Shareholders will receive cash at Closing in accordance with this Agreement.

B. The respective Boards of Directors of Itron, the Combination Company and the Company have reviewed the terms of the Merger.

C. Concurrently with the execution of this Agreement, Fredrick D. Sebold, Trustee, and J. Stuart McMenamin (together the "Founders") will consent to and approve the Merger and will enter into agreements whereby each of the Founders will support the Merger and grant a proxy to Itron for purposes of voting their respective interests in the Company at any Company shareholders' meeting or any consent or other corporate action in lieu of shareholders' meeting regarding the Merger.

D. The parties hereto have agreed that, as partial security for the indemnification provided hereunder by the Company Shareholders to Itron, a cash escrow (the "Escrow") in the amount of One Million Four Hundred Thousand Dollars ($1,400,000) shall be established in accordance with the terms and conditions of the Escrow Agreement attached hereto as Exhibit A (the "Escrow Agreement").

E. Itron, the Combination Company and the Company desire to make certain representations, warranties and agreements in connection with the Merger and also to prescribe various conditions to the Merger.

NOW, THEREFORE, in consideration of the premises and the representations, warranties and agreements herein contained, the parties agree as follows:

ARTICLE I.
DEFINITIONS

For purposes of this Agreement, unless otherwise defined herein, capitalized terms and terms listed herein shall have the following meanings:

"AAA Rules" shall have the meaning given in Section 10.3(b)(i).

"Accounting Arbitrator" shall mean the independent accounting firm to be mutually designated by the Shareholders' Representatives and Itron from time to time as necessary pursuant to Section 3.2(b).

"Accounts" shall have the meaning as given in Section 4.1(y).

"Affiliate" shall mean, with respect to any Person, (i) any Person who is a director, executive officer or the equivalent of that Person, (ii) any Person who directly or indirectly holds a ten percent (10%) or greater equity position in that Person, whether through shares, partnership interests, limited liability company interests, or otherwise, (iii) any Person in whom that Person holds, directly or indirectly, a ten percent (10%) or greater equity position, whether through shares, partnership interests, limited liability company interests, or otherwise, and (iv) any Person that controls that Person or any Person controlled by that Person, in either case directly or indirectly.

"Agreement" shall have the meaning as given in the Preamble hereto.

"Application Software" shall have the meaning as given in Section 4.1(l).

"Assets" shall mean all of the properties and assets owned, leased, or licensed by the Company, except for the Leased Premises, whether personal or mixed, tangible or intangible, wherever located.

"Business Condition" with respect to any entity shall mean the assets, business, financial condition or results of operations (without giving effect to the consequences of the Merger contemplated by this Agreement) of such entity and its subsidiaries, if any, taken as a whole.

"Business Day" shall mean a day other than a Saturday, a Sunday, or a day on which banks in Spokane, Washington or San Diego, California are permitted or required by law to close.

"Cause" shall mean, for any Key Employee, (a) a failure or refusal in any material respect to carry out the lawful duties of the respective Key Employee set forth in any employment agreement with the Surviving Corporation or Itron, or to follow in any material

respect any reasonable directions of Employer; (b) the Key Employee has been charged with the violation of a state or federal criminal law involving the commission of a crime against the Surviving Corporation or Itron or a felony; (c) current use by the Key Employee of illegal substances which adversely affects such members' employment with Itron or the Surviving Corporation; (d) deception, fraud, misrepresentation or dishonesty by the Key Employee relating to such member's employment with Itron or the Surviving Corporation; (e) any willful misconduct by the Key Employee which materially compromises the Key Employee's reputation or ability to represent the Surviving Corporation or Itron with the public; (f) any act or omission constituting willful misconduct or negligence by the Key Employee which substantially impairs the business, good will or reputation of the Surviving Corporation or Itron; or (g) any other material violation of any provision of any agreement between the Key Employee and the Surviving Corporation or Itron.

"CCC" shall have the meaning as given in the Recitals hereto.

"Certificates" shall have the meaning as given in Section 3.3(c).

"Claim Notice" shall mean a written notice in reasonable detail of the facts and circumstances that form the basis of an indemnification claim hereunder and setting forth an estimated range or amount of the potential Losses, if possible, and the sections of this Agreement upon which the claim for indemnification for such Losses is based.

"Closing" shall have the meaning as given in Section 2.2.

"Closing Date" shall have the meaning as given in Section 2.2.

"Closing Price" shall mean the last sale price of the Itron Common Shares as publicly reported by Nasdaq as of the close of trading on the applicable trading date.

"COBRA" shall mean the health care continuation provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Combination Company" shall mean RER Combination, Inc., a California corporation.

"Common Stock Number" shall have the meaning given in Section 3.1(c).

"Company" shall mean Regional Economic Research, Inc., a California corporation.

"Company Common Stock" shall have the meaning as given in Section 4.1(b).

"Company Disclosure Schedule" shall mean a document referring specifically to the representations and warranties in this Agreement that is delivered by the Company to Itron prior to the execution of this Agreement.

"Company Employees" shall mean the employees (including one former employee) of the Company listed on Schedule 5.10 hereto.

"Company Intellectual Property Registrations" shall have the meaning as given in Section 4.1(l).

"Company Intellectual Property Rights" shall have the meaning as given in Section 4.1(l).

"Company's Knowledge" shall mean the actual knowledge, with an obligation to conduct a reasonable inquiry, of Fredrick D. Sebold and J. Stuart McMenamin.

"Company Permits" shall have the meaning as given in Section 4.1(k).

"Company Shareholders" shall mean those Persons holding Company Shares immediately prior to the Effective Time of the Merger.

"Company Shares" shall mean the issued and outstanding shares of capital stock of the Company immediately prior to the Effective Time of the Merger.

"Company Stock Option Plan" shall have the meaning as given in Section 4.1(b).

"Confidentiality Agreement" shall have the meaning as given in Section 6.2.

"Consent" shall mean a consent, approval, Order, or authorization of, or registration, declaration, or filing with, or exemption by any third party, including without limitation, by any Governmental Entity.

"Contractual Documents" shall have the meaning as given in Section 4.1(c).

"Control" shall mean, with respect to any specified Person, the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of Voting Stock, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Counternotice" shall mean a written objection to a claim or payment setting forth the basis for disputing such claim or payment.

"Default" shall have the meaning as given in Section 4.1(c).

"Dissent Rights" shall mean those rights to dissent from the Merger and related transactions as provided under Section 1301 of the CCC.

"DOL" shall mean the United States Department of Labor.

"Domain Names" shall have the meaning as given in Section 4.1(l).

"Earnout Cash Portion" shall have the meaning as given in Section 3.2(d).

"Earnout Correction Amounts" shall have the meaning as given in Section 3.2(b).

"Earnout Interest Portion" shall have the meaning as given in Section 3.2(d).

"Earnout Payees" shall mean each Company Shareholder.

"Earnout Payments" shall mean the payments by Itron to the Earnout Payees of up to an aggregate of Four Million Dollars ($4,000,000) with respect to the Earnout Periods in cash and/or Itron Common Shares, if at all, and calculated and paid in accordance with and subject to the manner set forth in Section 3.2(a) (each such payment, an "Earnout Payment").

"Earnout Period" and "Earnout Periods" shall have the meanings as given in Section 3.2(a).

"Earnout Portion" shall have the meaning as given in Section 3.1(c).

"Earnout Stock Portion" shall have the meaning as given in Section 3.2(d).

"Effective Time of the Merger" shall have the meaning as given in Section 2.2.

"Employee Agreements" shall mean the agreements in substantially the form of Exhibit B pursuant to which the Company is providing bonus compensation and/or permitting the exercise of Stock Options without a requirement for payment of any exercise price.

"Employee Benefit Plan" shall mean any retirement, pension, profit sharing, deferred compensation, stock bonus, savings, bonus, incentive, cafeteria, medical, dental, vision, hospitalization, life insurance, accidental death and dismemberment, medical expense reimbursement, dependent care assistance, tuition reimbursement, disability, sick pay, holiday, vacation, severance, change of control, stock purchase, stock option, restricted stock, phantom stock, stock appreciation rights, fringe benefit or other employee benefit plan, fund, policy, program, contract, arrangement or payroll practice of any kind (including any "employee benefit plan," as defined in Section 3(3) of ERISA) or any employment, consulting or personal services contract, whether written or oral, qualified or nonqualified, funded or unfunded, or domestic or foreign, (a) sponsored, maintained or contributed to by the Company or to which the Company is a party, (b) covering or benefiting any current or former officer, employee, agent, director or independent contractor of the Company (or any dependent or beneficiary of any such individual), or (c) with respect to which the Company has (or could have) any obligation or liability.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"Escrow" shall have the meaning as given in the Recitals hereto.

"Escrow Agent" shall have the meaning as given in Section 3.1(d).

"Escrow Agreement" shall have the meaning as given in the Recitals hereto.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Exchange Agent" shall have the meaning as given in Section 3.3(a).

"Financial Statements" shall have the meaning as given in Section 4.1(i).

"Founders" shall have the meaning as given in the Recitals hereto.

"GAAP" shall mean generally accepted accounting principles established by the American Institute of Certified Public Accountants.

"Good Reason" shall mean the occurrence of any of the following events, without the consent of the Key Employee: (a) a demotion or other material reduction in the nature or status of the Key Employee's responsibilities (other than a demotion or reduction for Cause); (b) a non voluntary reduction in the Key Employee's annual base salary (other than a reduction for Cause); (c) the failure of the Surviving Corporation or Itron to obtain a satisfactory agreement from any successor company to assume and perform the obligations under any employment agreement with the Key Employee; or (d) a required relocation of the Key Employee's principal work site to a location outside a fifty (50) mile radius of such Key Employee's current principal work site.

"Governmental Entity" shall mean an administrative agency, court, or commission or other governmental authority or instrumentality, whether domestic or foreign.

"HIPAA" shall mean the Health Insurance Portability and Accountability Act of 1997, as amended.

"Initial Merger Consideration" shall have the meaning as given in Section 3.1(c).

"IRS" shall mean the United States Internal Revenue Service.

"Itron" shall mean Itron, Inc., a Washington corporation.

"Itron Accountants" shall have the meaning as given in Section 3.2(a).

"Itron Basket" shall have the meaning as given in Section 10.2

"Itron Common Shares" shall mean shares of Itron Common Stock, no par value.

"Itron's Knowledge" shall mean the actual knowledge, with an obligation to conduct a reasonable inquiry, of: LeRoy Nosbaum, David Remington, John Smith and Russ Fairbanks.

"Key Employees" shall mean the employees of the Company identified as Key Employees on Schedule 4.1(p) hereto.

"Leased Premises" shall mean all parcels of real estate subject to leases to which the Company is a party as a lessee as identified on Section 4.1(r) of the Company Disclosure Schedule.

"Losses" shall mean actual losses, damages, liabilities, claims, judgments, settlements, fines, costs, and expenses (including reasonable attorneys' fees) of any kind, minus: (i) any insurance proceeds received (less the fees and expenses incurred to obtain such proceeds) from a third party insurer (other than under insurance that is retrospectively rated or that is the economic equivalent of self-insurance); and (ii) any actual recovery from third parties (less the fees and expenses incurred to obtain such proceeds); provided, however, that "Losses" shall not include any indirect and/or consequential losses or damages of any kind incurred by Itron and/or the Surviving Corporation but shall include indirect and/or consequential losses or damages claimed by a third party and; provided, further, that in no event shall "Losses" include the absence of or failure to realize any Tax benefit or failure to receive any Tax refund pending as of the date hereof.

"Material Adverse Effect" shall mean, with respect to any entity or group of entities, a material adverse effect individually or in the aggregate on the Business Condition of such entity or group of entities, taken as a whole, other than any change, circumstance or effect (i) relating to the economy or securities markets in general, (ii) relating to the industries in which the Company or Itron operate and not specifically relating to the Company or Itron, or (iii) resulting from the execution of this Agreement, the announcement of this Agreement and the transactions contemplated hereby.

"Material Contract" shall have the meaning as given in Section 4.1(d).

"Meeting" shall mean the meeting of, or a unanimous written consent in lieu thereof, the Company's shareholders to consider approval of the Merger in compliance with the CCC.

"Merger" shall have the meaning as given in the Recitals hereto.

"Merger Consideration" shall have the meaning as given in Section 3.1(c).

"Merger Filings" shall have the meaning as given in Section 2.2.

"NASD" shall mean the National Association of Securities Dealers, Inc.

"Nasdaq" shall mean the Nasdaq National Market.

"Operative Documents" shall have the meaning as given in Section 4.1(a).

"Order" shall mean a decree, judgment, injunction, ruling or other order of a Governmental Entity having jurisdiction.

"Payment Certificate" shall mean a written claim for payment of Losses in reasonable detail and specifying the amount of such Losses.

"Person" shall mean an individual, corporation, partnership, joint venture, limited liability company, association, trust, unincorporated organization or other entity.

"Pre-Closing Tax Period" shall mean any taxable period ending on or before the Closing Date and the portion ending on and including the Closing Date of any Straddle Period.

"Products" shall have the meaning as given in Section 4.1(l)(ii).

"Public Software" means any software that contains, or is derived (in whole or in part) from, any software that is distributed as free software, open source software (e.g., Linux) or similar licensing or distribution models, including, but not limited to software licensed or distributed under any of the following licenses or distribution models, or licenses or distribution models similar to any of the following: (i) GNU's General Public License (GPL) or Lesser/Library GPL (LGPL), (ii) The Artistic License (e.g., PERL), (iii) the Mozilla Public License, (iv) the Netscape Public License, (v) the Sun Community Source License (SCSL), (vi) the Sun Industry Standards License (SISL), (vii) the BSD License and (viii) the Apache License.

"RER Product Line" shall mean the Company's Products and consulting services as of the Closing Date, which are described in Section 3.2(e) of the Company's Disclosure Schedule, together with enhancements and replacements thereto, as well as new products and services in RER's Product Market that are developed by Itron employees from time to time following the Effective Time of the Merger and during the Earnout Period. For the avoidance of doubt, the RER Product Line shall not include the products and services as provided by Itron as of the date hereof and any products and services provided by any business other than the Company that is acquired by Itron after the date hereof by means of a purchase of a company, products and services, licenses or distribution rights, or otherwise, but this sentence does not remove from the RER Product Line any products or services that are covered by the foregoing sentence.

"RER's Product Market" shall mean the market for load and end-use forecasting, energy-related consulting and analysis and the development of load analysis and forecasting applications software for the electric utility industry.

"RER Revenue" shall have the meaning as given in Section 3.2(a).

"RER Revenue Dispute Notice" shall have the meaning as given in Section 3.2(b).

"Retention Date" shall have the meaning as given in Section 6.13.

"SEC" shall mean the United States Securities and Exchange Commission.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Shareholder Basket" shall have the meaning as given in Section 10.1.

"Shareholders' Accountants" shall have the meaning as given in Section 3.2(b).

"Shareholders' Representatives" shall have the meaning as given in Section 10.7.

"Straddle Period" shall have the meaning as given in Section 6.11(d).

"Surviving Corporation" shall have the meaning as given in Section 2.1.

"Tax" and "Taxes" shall mean (a) domestic or foreign federal, state or local taxes, charges, fees, levies, imposts, duties and governmental fees or other like assessments or charges of any kind whatsoever (including, without limitation, any income, net income, gross income, receipts, windfall profit, severance, property, production, sales, use, business and occupation, license, excise, registration, franchise, employment, payroll, withholding, alternative or add-on minimum, intangibles, ad valorem, transfer, gains, stamp, estimated, transaction, title, capital, paid-up capital, profits, occupation, premium, value-added, recording, real property, personal property, inventory and merchandise, business privilege, federal highway use, commercial rent or environmental tax), (b) interest, penalties, fines, additions to tax or additional amounts imposed by any taxing authority in connection with (i) any item described in clause (a) or (ii) the failure to comply with any requirement imposed with respect to any Tax Return, and (c) liability in respect of any items described in clause (a) or (b) payable by reason of contract assumption, transferee liability, operation of law, Treasury Regulation Section 1.1502-6(a) (or any predecessor or successor thereof or any similar provision under law) or otherwise.

"Tax Returns" shall mean any return, report or statement required to be filed with respect to any Tax (including any attachments thereto and any amendment thereof), including, without limitation, any information return, claim for refund, amended return or declaration of estimated Tax.

"Technology" shall have the meaning as given in Section 4.1(l).

"Technology Employees" shall mean the employees of the Company identified as Technology Employees on Schedule 4.1(p) hereto.

"Technology-Related Assets" shall have the meaning as given in Section 4.1(l).

"Third Party Claim" shall have the meaning as given in Section 10.4(a).

"Third Party Licenses" shall have the meaning as given in Section 4.1(l).

"Third Party Technologies" shall have the meaning as given in Section 4.1(l).

"2003 Threshold" shall have the meaning as given in Section 3.2(a)(ii).

"2004 Threshold" shall have the meaning as given in Section 3.2(a)(ii).

"Voting Stock" shall mean any class or classes of capital stock pursuant to which the holders thereof have the general voting power under ordinary circumstances to elect a majority of the Board of Directors, managers or trustees of any Person (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency).

ARTICLE II.
THE MERGER

2.1 THE MERGER

Upon the terms and subject to the conditions hereof and in accordance with the CCC, the Combination Company shall be merged with and into the Company at the Effective Time of the Merger. Following the Merger, the separate corporate existence of the Combination Company shall cease and the Company shall continue as the surviving corporation (the "Surviving Corporation") and shall succeed to and assume all the rights and obligations of the Combination Company in accordance with the CCC.

2.2 EFFECTIVE TIME

As soon as practicable following the satisfaction or, to the extent permitted hereunder, the waiver of the conditions set forth in Article VII, the Surviving Corporation shall file an agreement of merger and officers' certificates for both RER and the Combination Company (in form as required by the CCC) with respect to the Merger (the "Merger Filings") and other appropriate documents executed in accordance with the relevant provisions of the CCC. The Merger shall become effective at such time as the Merger Filings are duly filed with the California Secretary of State, or at such later time as Itron and the Company shall agree should be specified in the Merger Filings (the time the Merger becomes effective being the "Effective Time of the Merger"). The closing of the Merger (the "Closing") shall take place at the offices of Perkins Coie LLP, 1201 Third Avenue, Suite 4800, Seattle, Washington 98101, as soon as practicable after satisfaction or waiver of the latest to occur of the conditions set forth in Article VII or on such other date as agreed to by Itron and the Company (the "Closing Date").

2.3 EFFECTS OF THE MERGER

The Merger shall have the effects set forth herein and in Section 1107 of the CCC. If at any time after the Effective Time of the Merger, the Company as the Surviving Corporation

shall consider or be advised that any further assignments or assurances in law or otherwise are necessary or desirable to vest, perfect or confirm, of record or otherwise, in the Surviving Corporation, all rights, title and interests in all real estate and other property and all privileges, powers and franchises of the Company and the Combination Company, the Surviving Corporation and its proper officers and directors, in the name and on behalf of the Company and the Combination Company, shall execute and deliver all such proper deeds, assignments and assurances in law and do all things necessary and proper to vest, perfect or confirm title to such property or rights in the Surviving Corporation and otherwise to carry out the purpose of this Agreement, and the proper officers and directors of the Surviving Corporation are fully authorized in the name of the Company and the Combination Company or otherwise to take any and all such action.

2.4 ARTICLES OF INCORPORATION AND BYLAWS

(a) On the Effective Date, the Articles of Incorporation of RER shall be amended and restated in full to read as set forth in Exhibit C attached hereto; except that Article I shall be amended to read as follows: "The name of the corporation is Regional Economic Research, Inc.", and Article III shall be deleted in its entirety. Thereafter, the Articles of Incorporation of the Surviving Corporation may be changed or amended as provided therein or by applicable law.

(b) The Bylaws of the Combination Company, as in effect immediately prior to the Effective Time of the Merger as set forth in Exhibit D hereto, shall be the Bylaws of the Surviving Corporation until thereafter changed or amended as provided therein or by applicable law.

2.5 DIRECTORS AND OFFICERS

The directors and officers of the Combination Company shall, from and after the Effective Time of the Merger, be the directors and officers of the Surviving Corporation and shall serve until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Surviving Corporation's Articles of Incorporation and Bylaws.

ARTICLE III.
EFFECT OF THE MERGER ON THE CAPITAL STOCK OF THE CONSTITUENT CORPORATIONS; EXCHANGE OF CERTIFICATES

3.1 EFFECT ON CAPITAL STOCK

As of the Effective Time of the Merger, by virtue of the Merger and without any action on the part of the Company, the Combination Company, Itron or the holders of any Company Shares or capital stock of Combination Company:

(a) CONVERSION OF COMBINATION COMPANY SHARES

All shares of stock of the Combination Company issued and outstanding immediately prior to the Effective Time of the Merger shall, in the aggregate, be converted automatically into one share of the Surviving Corporation as of the Effective Time of the Merger.

(b) CANCELLATION OF COMPANY TREASURY STOCK

All shares of capital stock of the Company held in the treasury of the Company immediately prior to the Effective Time of the Merger, if any, shall be cancelled and extinguished as of the Effective Time of the Merger, without any conversion thereof and no amount or other consideration shall be delivered or deliverable in exchange therefor.

(c) CONVERSION OF COMPANY SHARES

Each of the Company Shares issued and outstanding immediately prior to the Effective Time of the Merger, other than those Company Shares that are cancelled as provided in Section 3.1(b), upon the surrender of the certificates formerly representing such Company Shares pursuant to Section 3.3 shall be converted automatically into the right to receive in the aggregate:

(i) on the Closing Date, subject to the Escrow as provided in Section 3.1(d), (A) an amount of cash (the "Initial Merger Consideration") equal to Fourteen Million Dollars ($14,000,000) less the aggregate amount to be paid to any Company Shareholders who perfect their Dissent Rights, provided, however, that if such amount has not been ascertained by the Closing Date, then less the aggregate amount otherwise payable to Company Shareholders who have delivered written notice to the Company of their intent to demand payment and have not voted in favor of the Merger pursuant to their Dissent Rights, divided by (B) the Common Stock Number (defined below), rounded to ten decimal points; plus

(ii) following each Earnout Period, the portion of Earnout Payments, if any, calculated and allocated to the Company Shareholders on a prorata basis in accordance with the number of Company Shares held by the Company Shareholders immediately prior to the Effective Time of the Merger, divided by the Common Stock Number, rounded to ten decimal points (the "Earnout Portion" and together with the Initial Merger Consideration, the "Merger Consideration").

The "Common Stock Number" shall mean the total number of Company Shares outstanding immediately prior to the Effective Time of the Merger.

Pursuant to Section 3.3(b), following adjustments for the Escrow as provided in Section 3.1(d), the Initial Merger Consideration shall be payable at Closing by wire transfer of immediately available funds at Closing by Itron to the Exchange Agent for distribution to the Company Shareholders.

At the Effective Time of the Merger, all such Company Shares shall automatically be cancelled and retired and shall cease to exist, and each certificate previously evidencing any such shares shall thereafter represent only the right to receive the Merger Consideration. At the Effective Time of the Merger, the holders of any Company Shares outstanding immediately prior to the Effective Time of the Merger shall cease to have any rights with respect to such Company Shares, except the right to receive the Merger Consideration and as otherwise provided herein.

(d) DEPOSIT OF ESCROWED FUNDS

Notwithstanding the foregoing and the provisions of this Article III, and subject to the effectiveness of the Merger, an aggregate of One Million Four Hundred Thousand Dollars ($1,400,000) of the Initial Merger Consideration shall be deposited in the Escrow with Mellon Investor Services LLC (the "Escrow Agent"), to be held and administered in accordance with the Escrow Agreement, such Escrow to be withheld and deducted, pro rata, from the portion of the Initial Merger Consideration otherwise payable to each Company Shareholder. By delivering their certificates representing any of the Company Shares to the Exchange Agent in accordance with the provisions of Section 3.3 or by executing and delivering to the Company their Employee Agreements with the Company, the Company Shareholders shall respectively agree to be bound with respect to the indemnification obligations of the Company Shareholders, the authority of the Shareholders' Representatives to act on behalf of all Company Shareholders and the procedures set forth in Article X, and the Escrow shall be available to satisfy the indemnification obligations of the Company Shareholders pursuant to Article X.

3.2 EARNOUT PAYMENTS

(a) DETERMINATION OF RER REVENUE

(i) For each of the calendar years ended December 31, 2003 and 2004 (each such calendar year, an "Earnout Period" and, together, the "Earnout Periods"), Itron shall calculate the revenue of the RER Product Line (the "RER Revenue") for the Earnout Period then ended in the manner specified in Section 3.2(a)(ii) below. The RER Revenue shall be determined by Itron using the same information used in compiling the audited financial statements of Itron and related work papers and will be in accordance with GAAP consistently applied. During each Earnout Period, as soon as practicable after the end of each calendar quarter, but no later than forty-five (45) days thereafter, Itron shall provide to the Shareholders' Representatives a statement describing the RER Revenue as of the end of such quarter and for such Earnout Period to date, prepared in accordance with this Section 3.2 and with GAAP consistently applied, setting forth in reasonable detail the calculations relating to such determination and signed by the principal financial officer of Itron. No later than the thirty-first (31st) day of March immediately following the end of each Earnout Period, Itron shall deliver to the Shareholders' Representatives (i) a written calculation of the RER Revenue, which written calculation shall specify in reasonable detail the calculation of the annual RER

Revenue with respect to such Earnout Period, taking into consideration any change in circumstances as provided in subsection (e) hereof and the resulting Earnout Payments, if any, calculated in accordance with this Agreement and (ii) the Earnout Payments, if any, due to the respective Earnout Payees pursuant to such written calculation. Itron shall also cause Deloitte & Touche, LLP or such other nationally recognized accounting firm designated at Itron's sole discretion (the "Itron Accountants") to confirm that the calculations of the annual RER Revenue are in accordance with the provisions of Section 3.2(a)(ii) and that the procedures performed for calculating the annual RER Revenue are in accordance with GAAP consistently applied.

(ii) The RER Revenue shall be calculated in accordance with this Section 3.2 and with GAAP consistently applied provided that if past practices have not been in accordance with GAAP, the calculation shall nonetheless be in accordance with GAAP. During the period from Closing until ninety (90) days following the date of delivery of Itron's calculation of the RER Revenue with respect to the second Earnout Period, or through the end of any Accounting Arbitrator(s) decision process, if later, Itron shall give the Shareholders' Representatives and the Shareholders' Accountants reasonable and prompt access during normal business hours to (x) all of the properties, books, contracts, commitments and records related to the RER Revenue and the RER Product Line, and (y) all other information concerning Itron and the RER Revenue and the RER Product Line that the Shareholders' Representatives may reasonably request and that is necessary to evaluate and propose changes to the RER Revenue as calculated by Itron. Each Earnout Payment, if any, shall be paid in accordance with the following:

(A) for the calendar year ending December 31, 2003, the Earnout Payment, if any, shall equal Two Million Dollars ($2,000,000) multiplied by a fraction, the numerator of which shall be (x) the amount by which the RER Revenue for such Earnout Period exceeds the 2003 Threshold (defined below), up to a maximum excess of One Million Five Hundred Twenty-Eight Thousand Dollars ($1,528,000), and the denominator of which shall be (y) One Million Five Hundred Twenty-Eight Thousand Dollars ($1,528,000); and

(B) for the calendar year ending December 31, 2004, the Earnout Payment, if any, shall equal Two Million Dollars ($2,000,000) multiplied by a fraction, the numerator of which shall be (x) the amount by which the RER Revenue for such Earnout Period exceeds the 2004 Threshold (defined below), up to a maximum excess of One Million Eight Hundred Thirty-Four Thousand Dollars ($1,834,000), and the denominator of which shall be (y) One Million Eight Hundred Thirty-Four Thousand Dollars ($1,834,000).

As used herein, the term "2003 Threshold" shall mean Seven Million Six Hundred Forty Thousand Dollars ($7,640,000), and the "2004 Threshold" shall mean Nine Million One Hundred Sixty-Eight Thousand Dollars ($9,168,000). The RER Revenue for each Earnout Period shall be determined consistent with EITF 99-19 ("Reporting Revenue Gross as a Principal versus Net as an Agent").

(b) NOTIFICATION OF ANNUAL RER REVENUE DISPUTE

Upon receipt of such written calculation of the annual RER Revenue and Earnout Payments, if any, from Itron pursuant to Section 3.2(a), the Shareholders' Representatives shall have thirty (30) Business Days in which to object in writing to Itron with respect to Itron's written calculation of the annual RER Revenue and the amount of the Earnout Payments, if any (the "RER Revenue Dispute Notice"). During the foregoing period, and at their sole discretion, the Shareholders' Representatives may cause a nationally recognized accounting firm designated at their sole discretion (the "Shareholders' Accountants") to review the written calculation of the RER Revenue as provided by Itron. In the event that the Shareholders' Representatives fail to object to Itron's written calculation of the annual RER Revenue and the amount of the Earnout Payments, if any, within the foregoing period, the aggregate amount of such Earnout Payments shall be deemed conclusive and binding on all parties. In the event that the Shareholders' Representatives provide Itron with a timely RER Revenue Dispute Notice, then the Shareholders' Representatives and Itron shall work together in good faith to reach an agreement on the appropriate Earnout Payments. If within twenty (20) Business Days after Itron's receipt of the RER Revenue Dispute Notice, Itron and the Shareholders' Representatives have not reached an agreement and the Shareholders' Representatives have not retracted the RER Revenue Dispute Notice, the parties shall engage the Accounting Arbitrator to calculate the amounts of the Earnout Payments. If the parties are unable to agree upon one Accounting Arbitrator, each shall appoint an Accounting Arbitrator and these appointees shall appoint a third Accounting Arbitrator (collectively, the "Accounting Arbitrators"), in which case the determination of the amounts of the Earnout Payments shall be made by a majority decision of the Accounting Arbitrators. The decision of the Accounting Arbitrator(s) shall be conclusive and binding on all parties. The Accounting Arbitrator(s) shall be directed to make a determination of the Earnout Payments within forty-five (45) days of engagement. Payment by Itron or the Earnout Payees, as applicable, of the difference between the Earnout Payments, if any, paid by Itron pursuant to Section 3.2(a) and the amounts of the Earnout Payments as determined by the Accounting Arbitrator(s) (the "Earnout Correction Amounts") shall be due within ten (10) days after the resolution of any such dispute. Itron and the Earnout Payees shall pay the costs and expenses of their own accountants and attorneys and shall bear equally the expense of the Accounting Arbitrator(s); provided, however, that, (X) if the Accounting Arbitrator(s) determine that the aggregate amount of the Earnout Payments is at least ten percent (10%) or $50,000 greater than the amount that was initially paid by Itron to the Earnout Payees, then Itron shall pay all fees and expenses with respect to the Itron Accountants, the Shareholders' Accountants and the Accounting Arbitrator(s) as well as all reasonable attorneys' fees of the parties, and (Y) if the Accounting Arbitrator determines that the aggregate amount of the Earnout Payments is at least ten percent (10%) or $50,000 less than the amount that was initially paid by Itron to the Earnout Payees, then the Earnout Payees shall pay all fees and expenses with respect to the Itron Accountants, the Shareholders' Accountants and the Accounting Arbitrator(s) as well as all reasonable attorneys' fees of the parties.

(c) BREACH OF COVENANTS REGARDING OPERATION OF RER PRODUCT GROUP

In the event that the Shareholders' Representatives allege in the RER Revenue Dispute Notice an entitlement to greater Earnout Payments because of a breach of Itron's covenants in Section 6.11 hereof, and the parties are unable to resolve the dispute within the twenty (20) Business Day resolution period referenced in Section 3.2(b), then the dispute shall be resolved in accordance with Section 10.3(b) (including, but not limited to, the payment of interest).

(d) PAYMENT OF EARNOUT PAYMENTS

The portion of any Earnout Payment that is treated as interest for federal tax purposes shall be computed under Treasury Regulation Section 1.1275-4(c)(4) (the "Earnout Interest Portion"). Each Earnout Payment to an Earnout Payee may be paid in Itron Common Shares (the "Earnout Stock Portion"), cash (the "Earnout Cash Portion"), or both in the sole discretion of Itron, provided, however, that before all or any portion of an Earnout Payment may be paid in Itron Common Shares, Itron shall provide to the Shareholders' written notice of Itron's intent to pay in Itron Common Shares, including the percentage portion of the Earnout Payment that Itron will pay in Itron Common Shares, with such notice to be provided at least twenty-six (26) trading days prior to the date Itron delivers to the Shareholders' Representatives the written calculation of the RER Revenue and the Earnout Payments, if any, pursuant to Section 3.2(a). The amount of Itron Common Shares to be paid to the respective Earnout Payee as the Earnout Stock Portion, if any, on each occasion shall be that number determined by dividing (A) the Earnout Stock Portion, by (B) the average Closing Price on the twenty (20) trading days prior to the fifth (5th) trading day preceding the day that Itron delivers to the Shareholders' Representatives the written calculation of the RER Revenue and the Earnout Payments, if any, pursuant to Section 3.2(a). The Earnout Cash Portion, if any, shall be paid by Itron by certified check or wire transfer of immediately available funds to accounts specified by the respective Earnout Payee, the form of delivery of such payment to be at the sole discretion of Itron. The Earnout Stock Portion, if any, shall be delivered to the Earnout Payees in Itron Common Shares. By no later than the earlier of (i) the date that any Earnout Payment becomes due and (ii) the thirty-first (31st) day of March following the applicable Earnout Period for which such Earnout Payment has become due, as a condition to paying a portion of the Earnout Payment in Itron Common Shares, Itron shall have prepared and filed with the SEC a registration statement on Form S-3 or any future equivalent form under the Securities Act, and any necessary amendments or supplements thereto, for the registration and resale of any Itron Common Shares issuable as the Earnout Stock Portion of such Earnout Payment. Itron shall also take such reasonable actions (other than qualifying to do business in any jurisdiction in which it is not now so qualified) as may be required to be taken under any applicable state securities laws in connection with the issuance of the Itron Common Shares as the Earnout Stock Portion, if any, from time to time, and each Earnout Payee shall furnish all information necessary for such registration statement concerning such Earnout Payee. If at any time following the effectiveness of such registration statement, any information relating to one or more of the Earnout Payees or Itron, or any of their respective Affiliates, officers or

directors, should be discovered by one or more of the Earnout Payees or Itron which should be set forth in an amendment or supplement to any such registration statement, so that such document would not include any misstatement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the party which discovers such information shall promptly notify the other parties hereto and an appropriate amendment or supplement describing such information shall be promptly filed with the SEC and, to the extent required by law, disseminated to the Earnout Payees and Itron. Itron shall keep such registration statement effective for a period of ninety (90) days following the date that such Itron Common Shares are issued to one or more of the Earnout Payees.

(e) PAYMENT IN LIEU OF EARNOUT PAYMENTS

If, at any time following the Effective Time of the Merger and prior to the end of the second Earnout Period, either of the following events occurs: (i) as a result of any merger, investment, strategic or commercial alliance, or other event or series of events, Itron or one or more of its Affiliates holds or obtains a controlling ownership interest in an entity that continues to sell (after its acquisition by Itron) a product(s) or acquires assets that constitute a product(s) or enable Itron to market a product(s) that is(are) deployed in the RER Product Market that: (A) materially competes commercially with the RER Product Line or (B) terminates or discontinues a material element of the RER Product Line; or (ii) any re-assignment, sale, license, lease or other disposition by Itron of a material amount of the assets designated by Itron for the use of the RER Product Line in a manner that is materially detrimental to the commercial sale of the RER Product Line, then, each of the 2003 Threshold and 2004 Threshold shall be reduced by an amount equal to the amount of projected revenue related to the applicable elements of the RER Product Line so affected, including, but not limited to, licenses, software service and maintenance, based on the revenue attributable to such affected element(s) during the preceding twelve- (12-) month period; provided, that such termination, discontinuance or disposition is not the direct result of a breach of a representation, warranty or covenant in this Agreement by the Company. Notwithstanding the foregoing, if Itron sells, licenses, leases or otherwise disposes of all or substantially all of the RER Product Line (in one or a series of transactions), then Itron shall, within thirty (30) days of such disposition, pay to each Earnout Payee, in lieu of all other payments under Sections 3.1(c)(ii) and 3.2 of this Agreement, the allocable portion of seventy-five percent (75%) of the unpaid Earnout Payments for the respective remaining Earnout Period(s), whether or not the RER Revenue for such remaining Earnout Period(s) exceeds the relevant revenue thresholds specified in Section 3.2(a)(ii). For example, if such a disposition occurs as of February 1, 2003, the Earnout Payees would be paid an aggregate of $3,000,000, and if such a disposition occurs as of February 1, 2004, the Earnout Payees would be paid (a) an aggregate of $1,500,000 plus (b) any unpaid Earnout Payment with respect to the Earnout Period ending December 31, 2003 as otherwise provided in this Section 3.2.

(f) NON-TRANSFERABILITY OF RIGHT TO RECEIVE EARNOUT PAYMENTS FROM ITRON; NO OWNERSHIP OR VOTING RIGHTS

The right of any Earnout Payee to receive the Earnout Payments pursuant to this Agreement shall in no way, in and of itself, entitle such Earnout Payee to any ownership interest or voting rights in the Surviving Corporation or Itron on the basis of such right, and in no event shall such Earnout Payee have the right to transfer, other than by will or under applicable laws of descent and distribution, his or her right to receive the Earnout Payments directly from Itron.

3.3 EXCHANGE OF CERTIFICATES; DELIVERY OF EMPLOYEE AGREEMENTS

(a) EXCHANGE AGENT

Prior to the Effective Time of the Merger, at Itron's sole cost and expense, Itron shall engage Mellon Investor Services LLC to act as exchange agent (the "Exchange Agent") in accordance with this Section 3.3 for the delivery of the Initial Merger Consideration upon surrender to the Exchange Agent of the Certificates and the delivery of the Employee Agreements.

(b) PAYMENT OF MERGER CONSIDERATION

(i) As of the Closing, Itron shall have delivered to the Exchange Agent the Initial Merger Consideration to be paid upon the conversion of the Company Shares pursuant to Section 3.1(c). At the Effective Time of the Merger, Itron shall cause the Exchange Agent, pursuant to irrevocable instructions delivered to the Exchange Agent prior thereto, to deliver to the Company Shareholders the Initial Merger Consideration (less the funds escrowed pursuant to Section 3.1(d)) out of the amounts earlier delivered by Itron to the Exchange Agent. The Exchange Agent shall not use such funds for any purpose other than as set forth in this Section 3.3(b)(i).

(ii) On the date that any Earnout Payments become due, Itron shall issue and pay to the Earnout Payees the applicable Earnout Payments consisting of the certificates for the Itron Common Shares comprising the Earnout Stock Portion, the Earnout Cash Portion and any cash necessary to make payments in lieu of fractional shares pursuant to Section 3.1(d).

(c) EXCHANGE PROCEDURE FOLLOWING THE EFFECTIVE TIME OF THE MERGER

(i) As soon as practicable after the Effective Time of the Merger, Itron shall cause the Exchange Agent within ten (10) Business Days after the Exchange Agent's receipt of a certificate or certificates that represented immediately prior to the Effective Time of the Merger the issued and outstanding Company Shares (the "Certificates"), together with a letter of transmittal in substantially the form of Exhibit H (the "Transmittal Letter"), duly executed by the holder of such Certificate (which execution may be by a Shareholders' Representative if so appointed as the holder's attorney-in-fact pursuant to the holder's Employee Agreement or

otherwise), to deliver to the holder of such Certificate (in the case of the Founders) and to the Company payroll agent for payment to the holder of such Certificate (for all holders other than the Founders) in exchange therefor the applicable amount of the Initial Merger Consideration consisting of cash into which the Company Shares theretofore represented by such Certificate shall have been converted pursuant to Section 3.1(c), and the Certificate so surrendered shall forthwith be canceled. The Certificates and the accompanying Transmittal Letters may be directed to the Exchange Agent at the following address:

By Mail:

Mellon Investor Services, LLC
Reorganization Department
PO Box 3341
South Hackensack, NJ 07606

By Overnight Courier:

Mellon Investor Services, LLC
Reorganization Department
85 Challenger Road
Mail Drop - Reorg
Ridgefield Park, NJ 07660

By Hand:

Reorganization Department
120 Broadway, 13th Floor
New York, NY 10271

(ii) In addition to the amounts specified under Subsection 3.3(c)(i) above, the Earnout Payees shall be entitled to receive in exchange for the Certificates, the Earnout Payments, as such Earnout Payments become payable, if at all, under this Agreement.

(d) LOST, STOLEN OR DESTROYED CERTIFICATES

In the event any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit setting forth that fact by the Person claiming such loss, theft or destruction and, the granting of a reasonable indemnity against any claim that may be made against Itron or the Exchange Agent with respect to such Certificate, Itron shall cause the Exchange Agent to issue to such Person the applicable amount of the Initial Merger Consideration with respect to such lost, stolen or destroyed Certificate to which the holder thereof may be entitled pursuant to this Article III.

3.4 STOCK TRANSFER BOOKS

At the Effective Time of the Merger, the transfer books of the Company with respect to all shares of capital stock or other securities of the Company shall be closed and no further registration of transfers of such shares of capital stock or other securities shall thereafter be made on the records of the Company.

3.5 CERTAIN ADJUSTMENTS

If between the date that Itron delivers a written calculation of the RER Revenue and the Earnout Payment and the date that any Earnout Stock Portion is actually paid to the Earnout Payees, the outstanding shares of the Itron Common Shares shall be changed into a different number of shares by reason of any reclassification, recapitalization, split, combination or exchange of shares, or any dividend payable in stock or other securities shall be declared thereon with a record date within such period, the Earnout Stock Portion shall be adjusted accordingly to provide the same economic effect as contemplated by this Agreement prior to such reclassification, recapitalization, split, combination, exchange or dividend.

3.6 REQUIRED WITHHOLDING

Notwithstanding any provision to the contrary herein, each of Itron and the Company shall be entitled to deduct and withhold from any consideration payable or otherwise deliverable pursuant to this Agreement to any holder or former holder of Company Common Stock such amounts as may be required (as advised by tax counsel for Itron) to be deducted or withheld therefrom under the Code or under any provision of state, local or foreign tax law or under any other applicable legal requirement. The parties agree that no tax withholding shall be applicable to the consideration payable or deliverable to the Founders. To the extent such amounts are so deducted or withheld, such amounts shall be treated for all purposes under this Agreement as having been paid to the person to whom such amounts would otherwise have been paid. Without limiting the generality of the foregoing, Itron shall be entitled to deduct and withhold, or cause the Escrow Agent to deduct and withhold, applicable federal, state and local, or other income and employment taxes from any consideration payable under Sections 3.3(b)(i) and 3.3(b)(ii) hereof.

ARTICLE IV.
REPRESENTATIONS AND WARRANTIES

4.1 REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Subject to any exceptions specified in the Company Disclosure Schedule and except as specifically contemplated by this Agreement, the Company represents and warrants to, and agrees with, Itron and the Combination Company as herein set forth below. Such representations and warranties shall be deemed to be made as of the date hereof and as of the Closing Date, with the exception of the representations and warranties made in Section 4.1(c)(i), which are made as of the date hereof. Disclosure of an item in response to

one section of this Agreement shall constitute disclosure and response to every section of this Agreement, notwithstanding the fact that no express cross-reference is made.

(a) ORGANIZATION; STANDING AND POWER; NO SUBSIDIARIES; CHARTER DOCUMENTS

The Company is a corporation duly organized and validly existing under the laws of the State of California and has the requisite corporate power and authority to own, operate and lease its properties and assets, to carry on its business as now being conducted and as currently proposed to be conducted, and to enter into and perform its obligations under this Agreement and the other agreements and certificates that are required to be executed by the Company pursuant to this Agreement (collectively, the "Operative Documents") to which the Company is a party, and to consummate the transactions contemplated hereby and thereby. The Company is duly qualified to do business and is licensed as a foreign corporation and is in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary, other than in such jurisdictions where the failure to be so qualified to do business or in good standing (individually, or in the aggregate) would not have a Material Adverse Effect on the Company. The Company does not have any subsidiaries or own of record or beneficially any capital stock of or equity interest or investment in any Person. The Company has furnished to Itron true and complete copies of (a) the Articles of Incorporation and bylaws of the Company, respectively, as currently in effect, including all amendments thereto, (b) the minute books of the Company, and (c) the stock transfer books of the Company.

(b) CAPITAL STRUCTURE

The authorized capital stock of the Company consists of Fifteen Million (15,000,000) shares, all of which have been designated as common stock, no par value ("Company Common Stock"). As of the date hereof, Seven Million (7,000,000) shares of Company Common Stock are issued and outstanding. As the date hereof, the Company has outstanding options for the purchase of an aggregate of One Million Nine Hundred Seventeen Thousand Six Hundred Sixty-Seven (1,917,667) shares of Company Common Stock out of a total of Three Million (3,000,000) shares of Company Common Stock that have been reserved for issuance pursuant to the 2000 Nonqualified Stock Option Plan (the "Company Stock Option Plan"), all of which options are expected to be exercised in accordance with Section 5.10 immediately prior to the Effective Time of the Merger. True and correct copies of the stock records of the Company have been provided to Itron or its counsel.

Except as set forth above, no shares of capital stock or other equity or voting securities of the Company are reserved for issuance or outstanding. All outstanding shares of capital stock of the Company are, and immediately prior to the Closing will be (and immediately prior to the Closing all shares issuable upon the exercise of outstanding stock options or warrants will be), validly issued, fully paid and nonassessable and not subject to preemptive rights. All of such issued and outstanding shares of capital stock of the Company were offered and sold in

compliance with all applicable state and federal securities laws, rules and regulations. Except as set forth above or in Section 4.1(b) of the Company Disclosure Schedule, there are no outstanding or authorized securities, options, warrants, calls, rights, commitments, preemptive rights, agreements, arrangements or undertakings of any kind to which the Company is a party, or by which it is bound, obligating the Company to issue, deliver or sell, or cause to be issued, delivered or sold, any shares of capital stock or other equity or voting securities of, or other ownership interests in, the Company or obligating the Company to issue, grant, extend or enter into any such security, option, warrant, call, right, commitment, agreement, arrangement or undertaking. To the Company's Knowledge, no Person other than the Company Shareholders holds any interest in the Company Shares. Except as set forth in Section 4.1(b) of the Company Disclosure Schedule, all of which shall be terminated without cost to the Company by the Effective Time of the Merger, there are not as of the date hereof and there will not be at the Effective Time of the Merger any registration rights agreements, shareholder agreements, voting trusts or other agreements or understandings to which the Company is a party or by which it is bound relating to the voting of any shares of the capital stock of the Company.

(c) AUTHORITY; NON-CONTRAVENTION

(i) The Board of Directors of the Company has approved the Operative Documents and determined the Operative Documents to be in the best interests of the Company Shareholders pursuant to the terms hereof and thereof. The Company has the requisite corporate power and authority to enter into the Operative Documents and to consummate the transactions contemplated hereby and thereby. The execution and delivery of the Operative Documents by the Company and the consummation by the Company of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of the Company. The Operative Documents have been duly and validly executed and delivered by the Company and, assuming due authorization and delivery by Itron and the Combination Company, constitute the valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, except that (A) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws or judicial decisions now or hereafter in effect relating to creditors' rights generally and the application of general principles of equity, (B) the remedy of specific performance and injunctive relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought, and (C) the enforceability of any indemnification provision contained herein may be limited by applicable federal or state securities laws.

(ii) Except as set forth on Section 4.1(c) of the Company Disclosure Schedule, the execution, delivery and performance of the Operative Documents by the Company do not, and the consummation of the transactions contemplated hereby and compliance with the provisions hereof will not conflict with, or result in or constitute a violation of or default (a "Default") (with or without the giving of notice or lapse of time, or both) under, or acceleration or termination of, or the creation in any party of the right to accelerate, terminate or cancel, any provision of (A) the Articles of Incorporation and Bylaws

of the Company, (B) any loan or credit agreement, note, bond, mortgage, indenture, lease, or other agreement, instrument, permit, concession, franchise or license to which the Company is a party or by which it or any of its properties or assets is bound (individually, a "Contractual Document" and collectively, the "Contractual Documents"), except any such Default or Defaults that, individually or in the aggregate under one such Contractual Document or several such Contractual Documents, would not have a Material Adverse Effect on the Company, or (C) subject to the governmental filings and other matters referred to in the following sentence, any judgment, Order, decree, statute, law, ordinance, rule or regulation or arbitration award applicable to the Company or its properties or assets, except any such Default that would not have a Material Adverse Effect on the Company. No Consent of any Governmental Entity or other Person, is required by or with respect to the Company in connection with the execution and delivery of this Agreement by the Company or the consummation by the Company of the transactions contemplated hereby, except where lack of such Consents would not have a Material Adverse Effect, and except for (A) the filing of the Merger Filings with and approval by the California Secretary of State with respect to the Merger as provided in the CCC and appropriate documents with the relevant authorities of other states in which the Company is qualified to do business, if any, and (B) applicable requirements, if any, of the consents, approvals, authorizations or permits described in Section 4.1(c) of the Company Disclosure Schedule.

(d) MATERIAL CONTRACTS

Section 4.1(d) of the Company Disclosure Schedule lists all currently effective written or oral contracts, agreements, leases, instruments or legally binding contractual commitments to which the Company is a party that meet any of the following criteria (each, a "Material Contract"):

(i) any contract with a customer of the Company or with any entity that purchases goods or services from the Company for which requires future payment to the Company of $20,000 or more in any fiscal year of the Company;

(ii) any contract for capital expenditures or the acquisition or construction of fixed assets requiring future payment by the Company of in excess of $20,000 in any fiscal year of the Company;

(iii) any contract for the purchase or lease of goods or services (including without limitation, equipment, materials, software, hardware, supplies, merchandise, parts or other property, assets or services), requiring aggregate future payments by the Company in excess of $20,000 in any fiscal year of the Company;

(iv) any contract relating to the borrowing of money or guaranty of indebtedness in excess of $20,000 in any fiscal year of the Company;

(v) any collective bargaining or other arrangement with any labor union;

(vi) any contract granting a first refusal, first offer or similar preferential right to purchase or acquire any of the Company's capital stock or assets;

(vii) any contract limiting, restricting or prohibiting the Company from conducting business anywhere in the United States or elsewhere in the world or any contract limiting the freedom of the Company to engage in any line of business or to compete in any respects with any other Person;

(viii) any joint venture or partnership contract;

(ix) contracts requiring future payments of $20,000 or more in any fiscal year of the Company;

(x) any employment contract, severance agreement or other similar binding agreement or policy with any officer or director of the Company; and

(xi) any contract (other than 'shrink-wrap,' 'click wrap' or similar contracts for widely distributed commercially available software) for or with exclusive arrangements for product distribution, development, marketing, branding or services, or software licenses.

The Company has provided to Itron a true and complete copy of each Material Contract (and a written description of each oral Material Contract), including all amendments or other modifications thereto. Except as set forth on Section 4.1(d) of the Company Disclosure Schedule, to the Company's Knowledge, each Material Contract is a valid and legally binding obligation of the Company, enforceable against the Company in accordance with its terms, subject only to bankruptcy, reorganization, receivership or other laws affecting creditors' rights generally and general principles of equity (whether applied in an action at law or in equity). Except as set forth on Section 4.1(d) of the Company Disclosure Schedule, the Company has performed all obligations required to be performed by it under the Material Contracts and the Company is not in breach or default thereunder, except for breaches of and defaults under the Material Contracts that would not have a Material Adverse Effect on the Company. Neither the Company nor, to the Company's Knowledge, any other party to a Material Contract is in default thereunder, nor, to the Company's Knowledge, is there any event that with notice or lapse of time, or both, would constitute a default by the Company or, to the Company's Knowledge, any other party thereunder, except for such default under the Material Contracts that would not have a Material Adverse Effect on the Company.

In addition, except as set forth on Section 4.1(d) of the Company Disclosure Schedule or as would otherwise not have a Material Adverse Effect on the Company, the Company has no:

(xii) contracts with directors, officers, shareholders, employees, agents, consultants, advisors, salespeople, sales representatives, distributors or dealers that cannot be canceled by the Company within 30 days' notice without liability, penalty or premium, any agreement or arrangement providing for the payment of any bonus or commission based on

sales or earnings, or any compensation agreement or arrangement affecting or relating to former employees of the Company;

(xiii) notice, written or otherwise, that any party to a contract listed in Section 4.1(d) of the Company Disclosure Schedule intends to cancel, terminate or refuse to renew such contract (if such contract is renewable);

(xiv) material dispute with any of its suppliers, customers, distributors, OEM resellers, licensors or licensees; or

(xv) agreements or commitments to provide indemnification, other than pursuant to agreements with customers and vendors entered into in the ordinary course of business.

(e) INFORMATION SUPPLIED

None of the information supplied or required to be supplied by the Company for inclusion or incorporation by reference in the registration statement will, at the time the Registration Statement is filed with the SEC, and at any time it is amended or supplemented or at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that the Company makes no representation or warranty regarding information furnished or required to be furnished by or related to Itron.

(f) ABSENCE OF CERTAIN CHANGES OR EVENTS

Except as disclosed in Section 4.1(f) of the Company Disclosure Schedule or as reflected or reserved against in the audited Financial Statements, since May 31, 2002, the Company has conducted its business in the ordinary course consistent with past practice, and there has not been:

(i) any change, event or condition with respect to the Company that has had a Material Adverse Effect on the Company;

(ii) any declaration, setting aside or payment of any dividend (whether in cash, stock or property) with respect to any of the Company's capital stock;

(iii) (A) any granting or payment by the Company to any executive officer of the Company of any increase in compensation, bonus or similar payment, (B) any granting by the Company to any such executive officer of any increase in severance or termination pay, or (C) any entry by the Company into any employment, severance or termination agreement with any such executive officer, except, in each case in this subsection (iii), such grants or entries that would not have a Material Adverse Effect on the Company;

(iv) any amendment, waiver or forgiveness of any material term of any outstanding equity or debt security of the Company;

(v) any repurchase, redemption or other acquisition by the Company of any outstanding shares of capital stock or other equity securities of, or other ownership interests in, the Company, except as contemplated by any employee benefit plans of the Company;

(vi) any material damage, destruction or other property loss, whether or not covered by insurance; or

(vii) any change in accounting methods, principles or practices by the Company, except insofar as may have been required by a change in GAAP.

Furthermore, except as disclosed in Section 4.1(f) of the Company Disclosure Schedule, since May 31, 2002, to the Company's Knowledge, neither the Company nor any of its officers, directors or agents in their representative capacities on behalf of the Company have:

(viii) taken any action or entered into or agreed to enter into any transaction, agreement or commitment other than in the ordinary course of business that would have a Material Adverse Effect on the Company;

(ix) paid, discharged or satisfied any material claims, liabilities or obligations (absolute, accrued or contingent) other than the payment, discharge or satisfaction in the ordinary course of business and consistent with past practice of claims, liabilities and obligations reflected or reserved against in the Financial Statements or incurred in the ordinary course of business and consistent with past practice since May 31, 2002, or prepaid any material obligation having a fixed maturity of more than ninety (90) days from the date such obligation was issued or incurred;

(x) permitted or allowed any of its material property or assets (real, personal or mixed, tangible or intangible) to be subjected to any mortgage, pledge, lien, security interest, encumbrance, institutional control, restriction or charge, except (A) conditional sales or similar security interests granted in connection with the purchase of equipment or supplies in the ordinary course of business, (B) assessments for current taxes not yet due and payable, (C) landlord's liens for rental payments not yet due and payable, and (D) mechanics', materialmens', carriers' and other similar statutory liens securing indebtedness that is in the aggregate less than $10,000, was incurred in the ordinary course of business or is not yet due and payable;

(xi) written down the value of any inventory or written off as uncollectible any notes or accounts receivable, except for write-downs and write-offs that are in the aggregate less than $10,000, incurred in the ordinary course of business or consistent with past practice;

(xii) sold, transferred or otherwise disposed of any of its material properties or assets (real, personal or mixed, tangible or intangible) with an aggregate net book value in excess of $5,000, except the sale of inventory in the ordinary course of business or consistent with past practice;

(xiii) disposed of or permitted to lapse any rights to the use of any trademark, trade name, patent or copyright currently used to conduct the Company business, or disposed of or disclosed to any Person other than representatives of Itron any trade secret, formula, process or know-how not theretofore a matter of public knowledge, which was used to conduct the Company business;

(xiv) made any single capital expenditure or commitment in excess of $20,000 for additions to property, plant, equipment or intangible capital assets or made aggregate capital expenditures in excess of $50,000 for additions to property, plant, equipment or intangible capital assets;

(xv) received written notice of any other event or facts that could result in a Material Adverse Effect on the Business Condition of the Company; or

(xvi) agreed, whether in writing or otherwise, to take any action described in this Section 4.1(f).

(g) BROKERS

Except as set forth in Section 4.1(g) in the Company Disclosure Schedule, no broker, investment banker or other Person, is entitled to receive from the Company, or any party other than Itron, any investment banking, broker's, finder's or similar fee or commission in connection with this Agreement or the transactions contemplated hereby, including any fee for any opinion rendered by any investment banker based upon arrangements made by or on behalf of the Company or the Company Shareholders.

(h) LITIGATION

Except as disclosed in Section 4.1(h) of the Company Disclosure Schedule, (x) there is no claim, suit, action, proceeding or investigation pending or, to the Company's Knowledge, threatened against or affecting the Company that could have a Material Adverse Effect on the Company, and (y) there is no claim, suit, action, proceeding or investigation pending, or to the Company's Knowledge, threatened against the Company that could prevent or materially delay the ability of the Company to consummate the transactions contemplated by the Operative Documents, nor is there any judgment, decree, injunction, rule or Order of any Governmental Entity or arbitrator outstanding against the Company having any such effect. Except as disclosed in Section 4.1(h) of the Company Disclosure Schedule, there are no outstanding or unsatisfied judgments, orders, decrees or stipulations to which the Company is a party, which would have a Material Adverse Effect on the Company.

(i) FINANCIAL STATEMENTS

Attached as Schedule 4.1(i) are the following financial statements: (i) unaudited statements of income, cash flow, and changes in shareholders' equity of the Company as of the close of fiscal year ended May 31, 2001; (ii) unaudited balance sheets of the Company as of May 31, 2001; (iii) audited statements of income, cash flow, and changes in shareholders' equity of the Company as of the close of the fiscal year ended May 31, 2002; (iv) audited balance sheets of the Company as of May 31, 2002; and (v) an unaudited interim statement of income of the Company for the period from June 1, 2002 to July 31, 2002. The financial statements in (i) through (v) in the preceding sentence are collectively referred to herein as the "Financial Statements". The Financial Statements described in clauses (iii) and (iv) of the foregoing sentence: (A) are in accordance with the books and records of the Company; (B) present fairly, in all material respects, the financial position of the Company as of the dates indicated and the results of operations for the periods covered; and (C) have been prepared in accordance with GAAP consistently applied (except for normal and customary year end adjustments and accompanying notes), and the Financial Statement described in clauses (i), (ii) and (v) of the foregoing sentence: (A) are in accordance with the books and records of the Company; (B) present fairly, in all material respects, the financial position of the Company as of the dates indicated and the results of operations for the periods covered; and (C) have been prepared in accordance with the Company's historic accounting practices consistently applied. The Company maintains and will continue to maintain standard systems of accounting established and administered in accordance with GAAP.

(j) TAXES

Except as set forth in Section 4.1(j) of the Company Disclosure Schedule:

(i) the Company has timely filed with the appropriate Governmental Entities all material Tax Returns, required to be filed by or with respect to it (taking into account validly obtained extensions of time to file such Tax Returns) and has timely paid or deposited all Taxes which are required to be paid or deposited, and no other Taxes are due and payable by the Company with respect to items or periods covered by such Tax Returns (whether or not shown on or reportable on such Tax Returns) or with respect to any period prior to the date of this Agreement;

(ii) each of the Tax Returns filed by the Company is accurate, correct and complete in all material respects;

(iii) the audited Financial Statements of the Company and, to the Company's Knowledge, the unaudited Financial Statements, reflect an adequate reserve for all Taxes payable by the Company for all taxable periods and portions thereof through the date of such Financial Statements whether or not shown as being due on any Tax Returns;

(iv) there are no actions, suits, investigations, audits or claims by any Governmental Entity in progress relating to the Company, nor has the Company received any

notice in writing from any Governmental Entity that it intends to conduct such an audit or investigation nor, to the Company's Knowledge, based on personal contact with such Governmental Entity, does a Governmental Entity intend to conduct such an audit or investigation;

(v) the Company is not subject to any private letter ruling of the IRS or comparable ruling of any other Governmental Entity with respect to Taxes;

(vi) there are no tax liens upon any assets of the Company, except liens arising as a matter of law relating to current Taxes not yet due;

(vii) Except as set forth in Section 4.1(j) of the Company Disclosure Schedule, no audit report has been issued prior to the date of this Agreement (or otherwise with respect to any audit or investigation in progress) relating to Taxes due from or otherwise with respect to the Company;

(viii) the Company has delivered to Itron true and complete copies of (A) any audit reports issued prior to the date of this Agreement relating to Taxes due from or with respect to the Company, and (B) and all Tax Returns for all taxable periods with respect to the Company since fiscal 1998;

(ix) all material Taxes that the Company has been or is required by law to withhold or to collect for payment have been duly withheld and collected, and have been paid over to the appropriate Governmental Entities;

(x) the Company has not extended the time (A) within which to file any Tax Return, which Tax Return has not since been filed, or (B) for the assessment or collection of Taxes, which Taxes have not since been paid;

(xi) the Company has not granted to any Person any power of attorney with respect to any Tax matter;

(xii) the Company (A) is not nor has it been a member of any "affiliated group" within the meaning of Section 1504 of the Code or any similar group defined under a similar provision law that filed or was required to file a consolidated, combined or unitary Tax Return, or (B) does not have any liability for the Taxes of any Person (other than the Company) under Treasury Regulations Section 1.1502-6 (or any similar provision of law);

(xiii) Except as set forth in Section 4.1(j) of the Company Disclosure Schedule, the Company has not: (A) agreed or requested permission to, nor is it required to, make any adjustments pursuant to Section 481(a) of the Code (or any predecessor provision thereof or similar provision of Law), nor has the IRS or any other Governmental Entity proposed any such adjustment; (B) filed a consent pursuant to Section 341(f) of the Code or agreed to have Section 341(f)(2) of the Code apply to any disposition of a "subsection (f) asset" (as such term is defined in Section 341(f)(4) of the Code); (C) made any payment or

payments, is not obligated to make any payment or payments, nor is a party to (or participating employer in) any agreement or Employee Benefit Plan that could obligate it or Itron to make any payment or payments that (without regard to any payments to be made by Itron pursuant to its separate negotiations with employees of the Company) would constitute an "excess parachute payment," as defined in Section 280G of the Code (or any comparable provision of foreign, state or local law); or that would otherwise not be deductible under Section 162 or 404 of the Code; (D) been a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code during the applicable period specified in Section 897(c)(1)(A)(ii) of the Code; (E) executed, become subject to, or entered into any closing agreement pursuant to Section 7121 of the Code or any similar or predecessor provision thereof under the Code or other Tax law; (F) incurred or assumed any liability for the Taxes of any person; (G) been either a "distributing corporation" or a "controlled corporation" (within the meaning of Section 355(a)(1)(A) of the Code) with respect to a distribution of stock intended to qualify for gain or income non-recognition under Section 355 of the Code;

(xiv) the Company has never had a permanent establishment in any foreign country, as defined in any applicable Tax treaty or convention between the United States and such foreign country;

(xv) the Company has not made an election with respect to Taxes which has not been provided to Itron;

(xvi) the Company has disclosed on its federal income Tax Returns all positions taken therein that could give rise to a substantial understatement of federal income Tax within the meaning of Section 6662 of the Code;

(xvii) no claim has been made in writing by a Governmental Entity in a jurisdiction where the Company does not file a Tax Return to the effect that the Company is or may be subject to taxation by that jurisdiction, nor, to the Company's Knowledge, based on personal contact with such Governmental Entity, has such a non-written claim been made to such effect by a Governmental Entity; and

(xviii) the Company is not a party to, bound by or obligated under any allocation, indemnity, sharing or similar contract or arrangement (whether or not written) with respect to Taxes.

(k) COMPLIANCE WITH LAWS

Except as set forth on Section 4.1(k) of the Company Disclosure Schedule, the Company holds all permits, licenses, variances, exemptions, Orders, franchises and approvals of all Governmental Entities that are required for the operation of the business of the Company as presently conducted and the ownership, operation, lease and holding by the Company of its respective properties and Assets (the "Company Permits"), except where the failure to hold such Company Permits would not have a Material Adverse Effect on the Company. To the Company's Knowledge, the Company is in material compliance with the terms of the Company

Permits and has not violated, failed to comply with, or received any written notice of any alleged violation of or failure to comply with, any statute, law, ordinance, regulation, rule, permit or Order of any Governmental Entity, any arbitration award or any judgment, decree or Order of any court or other Governmental Entity, applicable to the Company or its business, assets or operations.

(l) INTELLECTUAL PROPERTY

Except as set forth on Section 4.1(l) of the Company Disclosure Schedule:

(i) The Company owns or has other rights (which may be rights granted under one or more licenses) in and to, the following as required to conduct its business as now conducted and as proposed to be conducted in any written materials furnished by the Company to Itron: all products, tools, computer programs, specifications, source code, object code, graphics, devices, techniques, algorithms, methods, processes, procedures, packaging, trade dress, formulae, drawings, designs, improvements, discoveries, concepts, user interfaces, software, "look and feel," development and other tools, content, inventions (whether or not patentable or copyrightable and whether or not reduced to practice), designs, logos, themes, know-how, concepts and other technology that are now or currently are proposed in any written materials furnished by the Company to Itron to be, developed, produced, used, marketed or sold by the Company (collectively, the "Technology-Related Assets") with rights therein sufficient and necessary to operate its business as now conducted and as proposed to be conducted (the "Company Intellectual Property Rights"), which include, without limitation, the items set forth on Section 4.1(l)(i) of the Company Disclosure Schedule. Set forth on Section 4.1(l)(i) of the Company Disclosure Schedule is a true and complete list of the registered intellectual property of the Company (the "Company Intellectual Property Registrations").

(ii) Section 4.1(l)(ii) of the Company Disclosure Schedule sets forth a list of all Technology Related Assets developed, produced, marketed or sold by the Company during the two years prior to the date of this Agreement, together with all prior versions, predecessors or precursors to such Technology Related Assets (collectively, the "Products"). Solely to the extent that the following are subject to proprietary rights protection pursuant to applicable law, the Company owns all right, title and interest in and to the following (except for any Third Party Technologies (as defined in Section 4.1(l)(iii)), free and clear of all encumbrances: (A) the Products, together with any and all codes, techniques, software tools, formats, designs, user interfaces, and content related thereto; (B) any and all updates, enhancements, corrections, modifications, improvements and new releases related to the items set forth in clause (A) above; (C) any and all technology and work in progress related to the items set forth in clauses (A) and (B) above; and (D) all inventions, discoveries, processes, designs, trade secrets, know-how and other confidential or proprietary information related to the items set forth in clauses (A), (B), and (C) above (collectively, the "Technology"). The Technology, excluding the Third Party Technologies (as defined below), is sometimes referred to herein as the "Company Technology."

(iii) Section 4.1(l)(iii) of the Company Disclosure Schedule sets forth a list of all Technology included in or distributed with the Company's Products for which the Company does not own all right, title and interest (collectively, the "Third Party Technologies"), and all license agreements and other contracts pursuant to which the Company has the right to use Third Party Technologies, other than commercially available third-party Application Software (as defined below), used by the Company, or intended or necessary for use by the Company, with the Company Technology (such license agreements and other contracts, the "Third Party Licenses"), indicating, with respect to each of the Third Party Technologies listed therein, the owner thereof and the Third Party License applicable thereto. The Company has the lawful right to use, (subject to all restrictions expressly set forth in the Third Party Licenses) (A) all Third Party Technology that is incorporated in or used in the development or production of the Company Technology and (B) all other Third Party Technology necessary for the conduct of the Company's business as now conducted and as proposed to be conducted in any written materials furnished by the Company to Itron. Neither the Company nor, to the Company's Knowledge, any other party thereto is in default under any such third-party license, nor to the Company's Knowledge has there occurred any event or circumstance that with notice or the passage of time or both would constitute a default or event of default on the part of the Company or, to the Company's Knowledge, any other party thereto or give to any other party thereto the right to terminate or modify any Third Party License. The Company has not received notice that any party to any Third Party License intends to cancel, terminate, suspend or refuse to renew (if renewable) such Third Party License or to exercise or decline to exercise any option or right thereunder. As used herein, "Application Software" shall mean third-party software applications designed for use by end users and not included in or distributed with the Products; including, without limitation, end-user applications such as word processing and spreadsheet software, as well as operating system software for workstations and networks.

(iv) The Company has not conducted its business, and has not used or enforced (or, to the Company's Knowledge, failed to use or enforce) the Company Intellectual Property Rights, in a manner that would result in the abandonment, cancellation or unenforceability of any item of the Company Intellectual Property Rights, and the Company has not taken (or, to the Company's Knowledge, failed to take) any action that would result in the forfeiture or relinquishment of any Company Intellectual Property Rights or Company Intellectual Property Registrations, in each case where such abandonment, cancellation, unenforceability, forfeiture or relinquishment would have a Material Adverse Effect on the Company. Except as set forth in Section 4.1(l)(iv) of the Company Disclosure Schedule, the Company has not granted to any third party any rights or permissions to use any of the Technology or the Company Intellectual Property Rights. Except pursuant to a written nondisclosure agreement set forth in Section 4.1(i)(ix) of the Company Disclosure Schedule, (A) no third party has received any confidential information relating to the Technology or the Company Intellectual Property Rights and (B) the Company is not under any contractual or other obligation to disclose to any third party any Company Technology.

(v) (A) The Company has not received any notice or claim (whether written, oral or otherwise) challenging the Company's ownership or rights in the Company Technology or the Company Intellectual Property Rights or claiming that any other Person has any legal or beneficial ownership with respect thereto; (B) all the Company Intellectual Property Rights are legally valid and enforceable without any material qualification, limitation or restriction on their use, and the Company has not received any notice or claim (whether written, oral or otherwise) challenging the validity or enforceability of any of the Company Intellectual Property Rights; and (C) to the Company's Knowledge, no other Person is infringing or misappropriating any part of the Company Intellectual Property Rights or otherwise making any unauthorized use of the Company Technology.

(vi) Except as set forth in Section 4.1(l)(vi) of the Company Disclosure Schedule, (A) the conduct of the business of the Company as now conducted does not, to the Company's Knowledge, infringe, violate or interfere with or constitute an misappropriation of any copyright, trade secret, trademark or U.S. patent of any Person, and there have been no claims made with respect thereto; and (B) the use of any of the Company Intellectual Property Rights in the Company's business does not infringe, violate or interfere with or constitute an appropriation of any copyright, trademark, trade secret or U.S. Patent of any other person or entity, and there have been no claims made with respect thereto. Except as set forth in Section 4.1(l)(iii) of the Company Disclosure Schedule, the consummation of the transactions contemplated hereby will not result in the loss or impairment of any Company Intellectual Property Rights.

(vii) (A) Except as set forth on Section 4.1(l) of the Company Disclosure Schedule, the Company has not disclosed any source code regarding the Technology to any Person other than an employee or a consultant of the Company except pursuant to a written nondisclosure agreement as set forth in Section 4.1(l)(ix) of the Company Disclosure Schedule or an independent contractor subject to a written nondisclosure agreement; (B) the Company has at all times maintained and diligently enforced commercially reasonable procedures to protect all confidential information relating to the Technology; (C) neither the Company nor any escrow agent is under any contractual or other obligation to disclose the source code or any other proprietary information included in or relating to the Technology; and (D) the Company has not deposited any source code relating to the Technology into any source code escrows or similar arrangements. If, as disclosed on Section 4.1(l)(viii) of the Company Disclosure Schedule, the Company has deposited any source code to the Technology into source code escrows or similar arrangements, no event has occurred that has or could reasonably form the basis for a release of such source code from such escrows or arrangements.

(viii) Section 4.1(l)(viii) of the Company Disclosure Schedule sets forth a list of all Internet domain names used by the Company in its business (collectively, the "Domain Names"). The Company has, and after the Effective Time of the Merger the Surviving Corporation will have, a valid registration and all material rights (free of any material restriction) in and to the Domain Names, including, without limitation, all rights necessary to continue to conduct the Company's business as it is currently conducted.

(ix) None of the Company's officers, employees, consultants, distributors, agents, representatives or advisors has entered into any agreement relating to the Company's business regarding know-how, trade secrets, assignment of rights in inventions, or prohibition or restriction of competition or solicitation of customers, or any other similar restrictive agreement or covenant with any Person other than the Company.

(x) Except as set forth in Section 4.1(l)(x) of the Company Disclosure Schedule, no Public Software forms part of the Technology-Related Assets or was or is used in connection with the development of any Technology-Related Assets, incorporated in whole or in part, or has been distributed, in whole or in part, in conjunction with any Technology-Related Assets.

(xi) Except as set forth in Section 4.1(l)(xi) of the Company Disclosure Schedule, no Public Software forming part of the Technology-Related Assets is software that requires as a condition of use, modification and/or distribution of such software that other software distributed with such software: (i) be disclosed or distributed in source code form; (ii) be licensed for the purpose of making derivative works; or (iii) be redistributable at no charge.

(m) NO DEFAULT

The Company is not in default or violation (and no event has occurred which, with notice or the lapse of time or both, would constitute a default or violation) of any term, condition or provision of: (i) its Articles of Incorporation and Bylaws; (ii) any Material Agreement or Contractual Document, except any such defaults or violations that would not have a Material Adverse Effect on the Company; or (iii) any Order, writ, injunction, decree, statute, rule or regulation applicable to the Company, except any such defaults or violations that would not have a Material Adverse Effect on the Company. Section 4.1(m) of the Company's Disclosure Schedule sets forth, to the Company's Knowledge, all such defaults and violations as described in subsections (i), (ii), and (iii) set forth above.

(n) TRANSACTIONS WITH AFFILIATES

Except as set forth in Section 4.1(n) of the Company Disclosure Schedule, since October 31, 2001, the Company has not purchased, leased or otherwise acquired any material property or assets or obtained any material services from, or sold, leased or otherwise disposed of any material property or assets or provided any material services to (except with respect to remuneration for services rendered as a director, officer or employee of the Company in the ordinary course), (i) any employee of the Company, (ii) any Company Shareholder, (iii) any Person, firm or corporation that directly or indirectly controls, is controlled by or is under common control with or by the Company or any officer, director or employee of the Company, or (iv) any member of the immediate family of any of the foregoing Persons.

(o) EMPLOYEE BENEFIT MATTERS

(i) Employee Benefit Plan Listing. Section 4.1(o) of the Company Disclosure Schedule contains a complete and accurate list of all Employee Benefit Plans. The Company does not have any agreement, arrangement, commitment or obligation, whether formal or informal, whether written or unwritten and whether legally binding or not, to create, enter into or contribute to any additional Employee Benefit Plan, or to modify or amend any existing Employee Benefit Plan, except to the extent such modification or amendment is required to be made in order to comply with applicable laws or to retain the tax-qualified or tax-favored status of an Employee Benefit Plan that intends to have such status. There has been no amendment, interpretation or other announcement (written or oral) by the Company or any other Person relating to, or change in participation or coverage under, any Employee Benefit Plan that, either alone or together with other such items or events, could materially increase the expense of maintaining such Employee Benefit Plan (or the Employee Benefit Plans taken as a whole) above the level of expense incurred with respect thereto for the most recent fiscal year included in the Financial Statements. The terms of each Employee Benefit Plan permit the Company to amend or terminate such Employee Benefit Plan at any time and for any reason without penalty and without material liability or expense. None of the rights of the Company under any Employee Benefit Plan will be impaired in any way by this Agreement or the consummation of the transactions contemplated by this Agreement.

(ii) Documents Provided. The Company has delivered to Itron true, correct and complete copies (or, in the case of unwritten Employee Benefit Plans, descriptions) of all Employee Benefit Plans (and all amendments thereto), along with, to the extent applicable to the particular Employee Benefit Plan, copies of the following: (A) the last three annual reports (Form 5500 series) filed with respect to such Employee Benefit Plan; (B) all summary plan descriptions, summaries of material modifications and all employee manuals or communications filed or distributed with respect to such Employee Benefit Plan during the last three years; (C) all contracts and agreements currently in effect (and any amendments thereto) relating to such Employee Benefit Plan, including, without limitation, trust agreements, investment management agreements, annuity contracts, insurance contracts, bonds, indemnification agreements and service provider agreements; (D) the most recent

determination letter issued by the IRS with respect to such Employee Benefit Plan; (E) all written communications relating to the amendment, creation or termination of such Employee Benefit Plan, or an increase or decrease in benefits, acceleration of payments or vesting or other events that could result in liability to the Company since the date of the most recently completed and filed annual report; (F) all correspondence that has been exchanged within the last three years with any governmental entity or agency relating to such Employee Benefit Plan; (G) samples of all administrative forms currently in use, including, without limitation, all COBRA and HIPAA forms and notices; (H) all coverage, nondiscrimination, top heavy and Code Section 415 tests performed with respect to such Employee Benefit Plan for the last three years; and (I) the most recent registration statement, annual report (Form 11-K) and prospectus prepared in connection with such Employee Benefit Plan.

(iii) Compliance. With respect to each Employee Benefit Plan: (A) such Employee Benefit Plan is, and at all times since inception has been, maintained, administered, operated and funded in all material respects in compliance with its terms and all applicable requirements of all applicable laws, statutes, Orders, rules and regulations, including, without limitation, ERISA, COBRA, HIPAA and the Code; (B) the Company and all other Persons (including, without limitation, all fiduciaries) have, at all times, properly performed all of their duties and obligations (whether arising by operation of law or by contract) under or with respect to such Employee Benefit Plan, including, without limitation, all reporting, disclosure and notification obligations; (C) neither the Company nor any fiduciary of such Employee Benefit Plan has engaged in any transaction or acted or failed to act in a manner that violates the fiduciary requirements of ERISA or any other applicable law; (D) no transaction or event has occurred or is threatened or about to occur (including any of the transactions contemplated in or by this Agreement) that constitutes or could constitute a prohibited transaction under Section 406 or 407 of ERISA or under Section 4975 of the Code for which an exemption is not available; and (E) the Company has not incurred, and there exists no condition or set of circumstances in connection with which the Company, the Combination Company, the Surviving Corporation or Itron could incur, directly or indirectly, any material liability or expense (except for routine contributions and benefit payments) under ERISA, the Code or any other applicable law, statute, order, rule or regulation, or pursuant to any indemnification or similar agreement, with respect to such Employee Benefit Plan.

(iv) Qualification. Each Employee Benefit Plan that is intended to be qualified under Section 401(a) of the Code is, and at all times since inception has been, so qualified and its related trust is, and at all times since inception has been, exempt from taxation under Section 501(a) of the Code. Each such Employee Benefit Plan either (A) is the subject of an unrevoked favorable determination letter from the IRS with respect to such Employee Benefit Plan's qualified status under the Code, as amended by the Tax Reform Act of 1986 and all subsequent legislation, or (B) has remaining a period of time under the Code or applicable Treasury regulations or IRS pronouncements in which to apply to the IRS for such a letter and to make any amendments necessary to obtain such a letter from the IRS. No fact exists or is reasonably expected by the Company to arise, that could adversely affect the qualification or

exemption of any such Employee Benefit Plan or its related trust. No such Employee Benefit Plan is a "top-heavy plan," as defined in Section 416 of the Code.

(v) Contributions, Premiums and Other Payments. All contributions, premiums and other payments due or required to be paid to (or with respect to) each Employee Benefit Plan have been timely paid, or, if not yet due, have been accrued as a liability on the Financial Statements. All income taxes and wage taxes that are required by law to be withheld from benefits derived under the Employee Benefit Plans have been properly withheld and remitted to the proper depository.

(vi) Related Employers. The Company is not, and has never been, a member of (A) a controlled group of corporations, within the meaning of Section 414(b) of the Code, (B) a group of trades or businesses under common control, within the meaning of Section 414(c) of the Code, (C) an affiliated service group, within the meaning of Section 414(m) of the Code, or (D) any other group of Persons treated as a single employer under Section 414(o) of the Code.

(vii) Multiemployer, Defined Benefit and Money Purchase Pension Plans and Multiple Employer Welfare Arrangements. The Company does not sponsor, maintain or contribute to, and has never sponsored, maintained or contributed to (or been obligated to sponsor, maintain or contribute to), (A) a multiemployer plan as defined in Section 3(37) or Section 4001(a)(3) of ERISA or 414(f) of the Code, (B) a multiple employer plan within the meaning of Section 4063 or 4064 of ERISA or Section 413(c) of the Code, (C) an employee benefit plan, fund, program, contract or arrangement that is subject to Section 412 of the Code, Section 302 of ERISA or Title IV of ERISA, (D) a multiple employer welfare arrangement as defined in Section 3(40) of ERISA or (E) a voluntary employees' beneficiary association within the meaning of Section 501(c)(9) of the Code.

(viii) Post-Employment Benefits. Neither the Company nor any Employee Benefit Plan provides or has any obligation to provide (or contribute toward the cost of) post-employment or post-termination benefits of any kind, including, without limitation, death and medical benefits, with respect to any current or former officer, employee, agent, director or independent contractor of the Company, other than (A) continuation coverage mandated by Sections 601 through 608 of ERISA and Section 4980B(f) of the Code, (B) retirement benefits under any Employee Benefit Plan that is qualified under Section 401(a) of the Code, and (C) deferred compensation that is accrued as a current liability on the Financial Statements.

(ix) Suits, Claims and Investigations. There are no actions, suits or claims (other than routine claims for benefits) pending or, to the knowledge of the Company, threatened with respect to (or against the assets of) any Employee Benefit Plan, nor, to the knowledge of the Company, is there a basis for any such action, suit or claim. No Employee Benefit Plan is currently under investigation, audit or review, directly or indirectly, by the IRS, the DOL or any other governmental entity or agency, and, to the knowledge of the Company,

no such action is contemplated or under consideration by the IRS, the DOL or any other governmental entity or agency.

(x) Effect of Transaction. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated by this Agreement, will (a) entitle any individual to severance pay, unemployment compensation or any other payment from the Company, the Combination Company, the Surviving Corporation, Itron or any Employee Benefit Plan, (b) otherwise increase the amount of compensation due to any individual or forgive indebtedness owed by any individual, (c) result in any benefit or right becoming established or increased, or accelerate the time of payment or vesting of any benefit, under any Employee Benefit Plan, or (d) require the Company, the Combination Company, the Surviving Corporation or Itron to transfer or set aside any assets to fund or otherwise provide for any benefits for any individual.

(p) EMPLOYMENT MATTERS

Except as disclosed in Section 4.1(p) of the Company Disclosure Schedule:

(i) the Company is not engaged in any unfair labor practice and has no liability for any arrears of wages or Taxes or penalties for failure to comply with any such provisions of law;

(ii) there is no labor strike, dispute, slowdown or stoppage pending or, to the Company's Knowledge, threatened against or affecting the Company, and the Company has not experienced any work stoppage or other labor difficulty since its incorporation;

(iii) to the Company's Knowledge, no organizational efforts are presently being made or threatened by or on behalf of any labor union with respect to employees of the Company;

(iv) each employee, officer and consultant of the Company has executed a nondisclosure agreement in the form provided to Itron, and to the Company's Knowledge, no employee (or Person performing similar functions) of the Company is in violation of any such agreement or any employment agreement, noncompetition agreement, patent disclosure agreement, invention assignment agreement, proprietary information agreement or other contract or agreement relating to the relationship of such employee with the Company or any other party;

(v) the Key Employees and the Technology Employees, as identified on Schedule 4.1(p), are the only employees of the Company with access to and knowledge of the confidential, proprietary components of the Technology Related Assets, and the Company has not retained consultants or independent contractors with access to confidential, proprietary components of the Technology Related Assets who were not at such time employees of the Company. Except for the Key Employees, no departure of any employee or employees of the

Company could reasonably be expected to cause a Material Adverse Effect on the Company, the Surviving Corporation or Itron; and

(vi) all employees of the Company are employed on an "at will" basis, and, to the Company's Knowledge, are eligible to work and are lawfully employed in the United States.

(q) ENVIRONMENTAL MATTERS

The business and operations of the Company are being conducted in compliance in all material respects with all limitations, restrictions, standards and requirements established under all environmental laws, and no facts or circumstances exist that impose, or, to the Company's Knowledge, with the passage of time, notice, cessation of operations or otherwise will impose, on the Company an obligation under environmental laws to conduct any removal, remediation or similar response action, at present or in the future.

(r) TITLE TO AND CONDITION OF PROPERTIES

Except for liens or restrictions that would not have a Material Adverse Effect on the Company, the Company has title to all of the Assets, free and clear of any material liens or restrictions that would preclude their current use, except: (i) liens of current taxes and assessments not yet delinquent; (ii) liens imposed by law and incurred in the ordinary course of business for obligations not yet due to materialmen, warehousemen and the like; (iii) leased assets; and (iv) matters disclosed in Section 4.1(r) of the Company's Disclosure Schedule. The Company does not own any real property and has a valid leasehold interest in its Leased Premises. The Company has complied in all material respects with the terms of all leases to which it is a party and under which it is in occupancy, and all such leases are in full force and effect. The Company's offices, facilities and other structures and the Company's personal property are materially adequate for the uses to which they are being put and, to the Company's Knowledge, there are no applicable adverse zoning, building or land use codes or rules, ordinances, regulations or other restrictions relating to zoning or land use that currently or may prospectively prevent, or cause the imposition of material fines or penalties as the result of, the use of all or any portion of the real property for the conduct of the business as presently conducted. The Company has received all necessary approvals with regard to occupancy of the real property. The Company has delivered to Itron true and complete copies of all leases, subleases, rental agreements, contracts for sale, tenancies or licenses relating to the real property and personal property.

(s) UNDISCLOSED LIABILITIES

Except as set forth on the Company Disclosure Schedule (and other than those directly incurred in connection with the execution of this Agreement), at the date of the most recent unaudited Financial Statements of the Company, the Company had not, and since such date the Company has not, incurred (except in the ordinary course of business), any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise), required by

GAAP to be set forth on a financial statement or in the notes thereto or which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect on the Company.

(t) INSURANCE

Section 4.1(t) of the Company Disclosure Schedule accurately lists in reasonable detail all material insurance policies maintained by the Company. The Company maintains commercially reasonable levels of (a) insurance on its property (including leased premises) that insures against loss or damage by fire or other casualty and (b) insurance against liabilities, claims and risks of a nature and in such amounts as are normal and customary in the Company's industry for companies of similar size and financial condition. All insurance policies of the Company are in full force and effect, all premiums with respect thereto covering all periods up to and including the date this Agreement have been paid, and no notice of cancellation or termination has been received with respect to any such policy or binder.

(u) ABSENCE OF QUESTIONABLE PAYMENTS

Neither the Company nor, to the Company's Knowledge, any director, officer, agent or employee has used any Company funds for improper or unlawful contributions, payments, gifts or entertainment, or made any improper or unlawful expenditures relating to political activity to domestic or foreign government officials or others. Neither the Company nor, to the Company's Knowledge, any current director, officer, agent or employee has accepted or received any improper or unlawful contributions, payments, gifts or expenditures. The Company has at all times complied, and is in compliance, in all respects with the Foreign Corrupt Practices Act and all foreign laws and regulations relating to prevention of corrupt practices and similar matters. The Company has not received any notice that any transaction was improper or unlawful within the meaning of this Section 4.1(u).

(v) BANK ACCOUNTS

Section 4.1(v) of the Company Disclosure Schedule sets forth the names and locations of all banks, trust companies, savings and loan associations and other financial institutions at which the Company maintains safe deposit boxes or accounts of any nature and the names of all Persons authorized to draw thereon, make withdrawals therefrom or have access thereto.

(w) GOVERNMENT CONTRACTS

The Company has never been, nor, to the Company's Knowledge, as a result of the consummation of the transactions contemplated by this Agreement will it be, suspended or debarred from bidding on contracts or subcontracts for any agency of the United States government or any foreign government, nor to the Company's Knowledge has such suspension or debarment been threatened or action for suspension or debarment been commenced.

(x) ORDERS; COMMITMENTS; WARRANTIES AND RETURNS

Schedule 4.1(x) attached hereto contains an accurate summary as of June 1, 2001 and as of May 31, 2002 of the Company's total backlog (including all accepted and unfulfilled service contracts). All such sale and purchase commitments were made in the ordinary course of business. Section 4.1(x) of the Company Disclosure Schedule sets forth the warranties of the Company currently made with respect to its business, products and services, and current policies with respect to returns of products in the course of the Company's conduct of the business. Except as set forth on Section 4.1(x) of the Company Disclosure Schedule, the Company has not made any express warranties in connection with the sale of its products and services. Claims against the Company for warranty costs (individually or in the aggregate) with respect to products and services during each of the last three fiscal years did not exceed $20,000 and there are no outstanding or, to the Knowledge of the Company, threatened claims for any such warranty costs that would exceed $10,000 (individually or in the aggregate). As used above, the term "warranty costs" shall mean costs and expenses associated with correcting, returning or replacing defective or allegedly defective products or services, whether such costs and expenses arise out of claims sounding in warranty, contract, tort or otherwise.

(y) ACCOUNTS RECEIVABLE

All accounts receivable of the Company reflected in the audited balance sheet dated May 31, 2002 included in the Financial Statements ("Accounts") represent amounts due for services performed or sales actually made in the ordinary course of business and properly reflect the amounts due as of May 31, 2002. The bad debt reserves and allowances reflected in the May 31, 2002 balance sheet will be adequate. All Accounts existing and remaining unpaid at the time of Closing will be fully collectible by Itron using commercially reasonable collection efforts in the ordinary course of business, other than as reflected on the bad debt reserves on the May 31, 2002 balance sheet. In the event any of the Accounts are not collected within 180 days of the Closing Date and in the event the Company Shareholders are requested to and do indemnify Itron for any losses from all or any portion of such uncollected Accounts, then Itron shall cause the Company to transfer to the Shareholders' Representatives for the benefit of the Company Shareholders any uncollected Accounts so indemnified, and the Shareholders' Representatives shall be free to pursue collection of such Accounts in a manner that is nondisruptive to the operation of the business of Itron, but at all times in coordination with Itron.

4.2 REPRESENTATIONS AND WARRANTIES OF ITRON AND THE COMBINATION COMPANY

Itron and the Combination Company each represents and warrants to, and agrees with, the Company as herein set forth below. Such representations and warranties shall be deemed to be made as of the date hereof and as of the Closing Date. Disclosure of an item in response to one section of this Agreement shall constitute disclosure and response to every section of this Agreement, notwithstanding the fact that no express cross reference is made.

(a) ORGANIZATION; STANDING AND POWER

Itron and the Combination Company are each respectively corporations duly organized and validly existing under the laws of the State of Washington and the State of California. The Combination Company is in good standing under the laws of the State of California, and Itron is duly qualified to do business and is licensed as a foreign corporation and is in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties make such qualification necessary, other than in such jurisdictions where the failure to be so qualified to do business or in good standing (individually, or in the aggregate) would not have a Material Adverse Effect on Itron. Each of Itron and the Combination Company has the requisite corporate power and authority to own, operate and lease its properties and assets, to carry on its respective business as now being conducted and as currently proposed to be conducted, and to enter into and perform its obligations under the Operative Documents to which Itron or the Combination Company is a party, and to consummate the transactions contemplated hereby and thereby. The Combination Company was formed solely for the purpose of engaging in the transactions contemplated by this Agreement. As of the date of this Agreement, except for obligations or liabilities incurred in connection with the transactions contemplated hereby, the Combination Company has no material assets or liabilities of any type.

(b) ITRON COMMON SHARES; COMBINATION COMPANY CAPITAL STRUCTURE

Any shares of Itron Common Shares to be issued as Merger Consideration pursuant to the terms of this Agreement will have been adequately reserved and will, when issued, be validly issued, fully paid and non-assessable and not subject to preemptive or other similar rights. Such shares of Itron Common Shares will, upon the effectiveness of a registration statement filed with the SEC, be approved for trading on Nasdaq. The authorized capital stock of the Combination Company consists of One Thousand (1,000) shares of common stock, $.001 par value, and no shares of preferred stock. As of the date of this Agreement, One Thousand (1,000) shares of the Combination Company's common stock are issued and outstanding in the name of Itron, and no other shares of capital stock of the Combination Company are issued and outstanding. All outstanding shares of capital stock of the Combination Company are validly issued, fully paid and nonassessable and not subject to preemptive or other similar rights.

(c) AUTHORITY; NON-CONTRAVENTION

(i) The Board of Directors of Itron and the Combination Company, respectively, have approved the Merger and the Operative Documents to which they are a party and determined the Merger and the Operative Documents to which they are a party to be in the best interests of Itron and the Combination Company and their respective shareholders. Itron and Combination Company, respectively, have the requisite corporate power and authority to enter into the Operative Documents to which they are a party and to consummate the transactions contemplated hereby. The execution and delivery of the Operative Documents to which they are a party by Itron and the Combination Company and the consummation by Itron and Combination Company of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of Itron and Combination Company, respectively. The Operative Documents to which Itron and the Combination Company are a party have been duly and validly executed and delivered by Itron and the Combination Company and constitute valid and binding obligations of Itron and the Combination Company, respectively, enforceable against Itron and the Combination Company in accordance with their terms, except that (x) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws or judicial decisions now or hereafter in effect relating to creditors' rights generally and the application of general principles of equity, (y) the remedy of specific performance and injunctive relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought, and (z) the enforceability of any indemnification provision contained herein may be limited by applicable federal and state securities laws.

(ii) The execution, delivery and performance of the Operative Documents by Itron do not, and the consummation of the transactions contemplated hereby and thereby and compliance with the provisions hereof will not, conflict with, or result in or constitute a violation of or any default (with or without the giving of notice or lapse of time, or both) under, or acceleration or termination of, or the creation in any party of the right to accelerate, terminate or cancel or give rise to a right of termination, cancellation or acceleration with respect to (x) the Articles of Incorporation or the Bylaws of Itron or the Combination Company or any provision of the comparable organizational documents of any of their respective subsidiaries, (y) any loan or credit agreement, note, bond, mortgage, indenture, lease, or other agreement, instrument, permit, concession, franchise or license to which Itron is a party or by which it or any of its properties or assets is bound, except any such violation or default that, individually or in the aggregate, would not have a Material Adverse Effect on Itron, or (z) subject to the governmental filings and other matters referred to in the following sentence, any judgment, order, decree, statute, law, ordinance, rule or regulation or arbitration award applicable to Itron or any of its subsidiaries or their respective properties or assets, other than, in the case of clause (y), for any immaterial defaults, conflicts or violations. No consent, approval, Order or authorization of, or registration, declaration or filing with, any Governmental Entity or other Person is required by or with respect to Itron or any of its subsidiaries in connection with the execution and delivery of this Agreement by Itron or the consummation by Itron of the transactions contemplated hereby, except for the filing with the

SEC of (A) any registration statement in connection with the earnout under Section 3.2, and (B) such reports under Section 13(a) of the Exchange Act as may be required in connection with this Agreement and the transactions contemplated hereby, (iii) the filing of the Merger Filings with and approval by the California Secretary of State with respect to the Merger as provided in the CCC and appropriate documents with the relevant authorities of other states in which Itron and the Combination Company are qualified to do business and such other consents, approvals, Orders, authorizations, registrations, declarations and filings as may be required under the "takeover" or "blue sky" laws of various states and such other consents, approvals, Orders, authorizations, registrations, declarations and filings the failure of which to be obtained or made would not have a Material Adverse Effect on Itron and its subsidiaries, taken as a whole, and (iv) any filings required by Nasdaq or the NASD. No vote of the shareholders of Itron is necessary or required to approve or consummate any of the transactions contemplated hereby. The affirmative vote of Itron, as the sole shareholder of Combination Company, is the only vote of the holders of any class or series of capital stock of the Combination Company necessary to approve the transaction contemplated hereby.

(d) INFORMATION SUPPLIED

None of the information supplied or required to be supplied by Itron or the Combination Company for inclusion or incorporation by reference in any registration statement in connection with the earnout under Section 3.2will, at the time the registration statement is filed with the SEC, and at any time it is amended or supplemented or at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that Itron makes no representation or warranty regarding information furnished or required to be furnished by or related to the Company.

(e) BROKERS

Itron has not employed any broker, investment banker or other Person entitled to receive any investment banking, broker's, finder's or similar fee or commission in connection with this Agreement or the transactions contemplated hereby, including any fee for any opinion rendered by any investment banker.

(f) NO IMPLIED WARRANTIES

Itron makes the specific representations and warranties contained in this Agreement; there are no implied representations or warranties. This Agreement and the Exhibits and Schedules hereto, taken as a whole, do not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements herein as to Itron not misleading.

(g) LITIGATION.

There is no claim, suit, action, proceeding or investigation pending or, to Itron's Knowledge, threatened against or affecting Itron or any of its subsidiaries that could have a Material Adverse Effect on Itron and its subsidiaries, and there is no claim, suit, action, proceeding or investigation pending, or to Itron's Knowledge, threatened against Itron or the Combination Company that could prevent or materially delay the ability of Itron or the Combination Company to consummate the transactions contemplated by the Operative Documents, nor is there any judgment, decree, injunction, rule or Order of any Governmental Entity or arbitrator outstanding against Itron or the Combination Company having any such effect.

ARTICLE V.
COVENANTS OF THE COMPANY

During the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Closing Date, the Company agrees (except as expressly contemplated by this Agreement or with Itron's prior written consent (with e-mail consent deemed sufficient for such purposes), which will not be unreasonably withheld or delayed) that:

5.1 CONDUCT OF BUSINESS

The Company shall carry on its business in the usual and ordinary course in substantially the same manner as heretofore conducted and, to the extent consistent with such business, use commercially reasonable efforts consistent with past practice and policies to preserve intact its present business organization, keep available the services of its present officers, consultants, and employees, and preserve its relationships with customers, suppliers, distributors and others having business dealings with it. The Company shall not:

(a) grant any severance, termination pay, bonus or similar payment to any officer, director or any employee of the Company, except as contemplated by Section 5.10;

(b) commence a lawsuit other than (i) for the routine collection of bills, (ii) in such cases where the Company in good faith determines that failure to commence suit would result in a material impairment of a valuable aspect of the Company's business, or (iii) for a breach of this Agreement;

(c) enter into one or more agreements, contracts, or commitments that extend for a period of greater than one (1) year beyond the date of this Agreement or that obligate the Company to pay aggregate gross amounts in excess of $25,000, except for (i) purchases in the ordinary course of business or draw-downs from the Company's existing revolving credit facility with Union Bank, or (ii) agreements, contracts, or commitments between the Company and its customers;

(d) except in the ordinary course of business consistent with past practice, enter into one or more agreements, contracts, or commitments with customers, that extend for a period of greater than one (1) year beyond the date of this Agreement or that may produce for the Company proceeds to the Company in amounts in excess of $50,000;

(e) fail, except for adequate replacement policies, to maintain in full force and effect each insurance policy listed on Section 4.1(t) of the Company's Disclosure Schedule; or

(f) make any capital expenditures in excess of $25,000.

5.2 DIVIDENDS; CHANGES IN CAPITAL STOCK

The Company shall not: (i) declare or pay any dividends on or make any other distributions in respect to any of its capital stock; (ii) split, combine, or reclassify any of its capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of, or in substitution of shares of its capital stock.

5.3 ISSUANCE OF SECURITIES

The Company shall not issue, deliver, or sell, or authorize, propose, or agree or commit to the issuance, delivery, or sale of any shares of its capital stock of any class, any securities convertible into its capital stock or, any options, warrants, calls, conversion rights, commitments, agreements, contracts, understandings, restrictions, arrangements or rights of any character obligating it to issue any such shares, or other convertible securities; provided, however, nothing herein shall prevent the Company from issuing Company Common Stock on the valid exercise of any existing option or warrant to purchase Company Common Stock.

5.4 GOVERNING DOCUMENTS

The Company shall not amend its Articles of Incorporation or Bylaws.

5.5 NO ACQUISITIONS

The Company shall not acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association, or other business organization or division thereof.

5.6 NO DISPOSITIONS

The Company shall not sell, lease, license, transfer, mortgage, encumber, or otherwise dispose of any of its assets or cancel, release, or assign any indebtedness or claim, except in the ordinary course of business or in amounts that are not material to the Business Condition of the Company.

5.7 INDEBTEDNESS

The Company shall not incur any indebtedness for borrowed money by way of direct loan, sale of debt securities, purchase money obligation, conditional sale, guarantee, or otherwise, except in the ordinary course of business or in amounts that are not material to the Business Condition of the Company; provided, however, that nothing in this Section 5.7 shall be interpreted to prohibit borrowing by the Company pursuant to its existing lines of credit.

5.8 CLAIMS

The Company shall not settle any proceeding, except in the ordinary course of business or in amounts that are not material, individually or in the aggregate, to the Business Condition of the Company.

5.9 OTHER ACTIONS

The Company shall not take any action that would cause or constitute a material breach of any of the representations and warranties set forth in Section 4 or that would cause any of such representations and warranties to be inaccurate in any material respect.

5.10 TRANSACTIONS WITH EMPLOYEES

Notwithstanding anything in this Article V to the contrary, the Company may enter into Employee Agreements with the Company Employees to the effect that the Company Employees will, pursuant to stock grants and/or the exercise of outstanding stock options, all without payment of any cash consideration upon such grants or exercises, hold approximately 38% of the Company Shares immediately prior to the Effective Time of the Merger. Such Employee Agreements shall be substantially in the form attached hereto as Exhibit B and will contain provisions regarding the Company's right to inventions and release of the Company from liability.

ARTICLE VI.
ADDITIONAL AGREEMENTS

6.1 APPROVAL PROCESS

(a) As soon as reasonably practicable following the execution of this Agreement, the Company shall, subject to Section 6.1(b), convene and hold the Meeting (or cause to be executed a unanimous written consent of the Company's shareholders in lieu thereof) for the purpose of considering the Merger (and for any other proper purpose as may be set out in the notice for such meeting.

(b) The Company shall consult with Itron and its counsel and allow each of them to fully participate in the preparation of all documents to be sent to the Company Shareholders. All such documentation shall be in form and substance reasonably satisfactory to Itron.

6.2 ACCESS TO INFORMATION; CONFIDENTIALITY

(a) Upon reasonable notice, the Company shall afford to the officers, employees, accountants, counsel and other representatives of Itron, reasonable access during normal business hours during the period from the date hereof to the Effective Time of the Merger, to all of its properties, books, contracts, commitments and records. During such period the Company shall furnish promptly to Itron all other information concerning its business, properties and personnel as Itron may reasonably request; provided, however, that notwithstanding the foregoing provisions of this Section 6.2 or any other provision of this Agreement, the Company shall not be required to provide to Itron any information that is subject to a confidentiality agreement and that relates primarily to a party other than the Company. Itron agrees that it will not, and it will cause its respective representatives not to, use any information obtained pursuant to this Section 6.2 for any purpose unrelated to the consummation of the transactions contemplated by this Agreement. That certain Nondisclosure Agreement, dated as of November 12, 2001 by and between the Company and Itron (the "Confidentiality Agreement"), shall apply with respect to information furnished by the Company and its respective representatives thereunder or hereunder and any other activities contemplated thereby. The parties agree that this Agreement and the transactions contemplated hereby shall not constitute a violation of the Confidentiality Agreement and that the provisions hereof shall supersede all provisions of the Confidentiality Agreement in the event of a conflict.

(b) Neither the Company nor Itron shall issue any statement or communication to the public or press regarding this Agreement or the proposed Merger without the prior written consent and approval of the other party, except as otherwise provided in Section 6.5. If this Agreement is terminated pursuant to Article VIII by either the Company or Itron, the proposed terms of the Merger and all Merger related discussions shall remain confidential and shall not be disclosed to any Person without the consent of the other party except as may be required by law or regulatory authorities.

6.3 COMMERCIALLY REASONABLE EFFORTS; NOTIFICATION

(a) Upon the terms and subject to the conditions set forth in this Agreement and otherwise provided in this Section 6.3, each of the parties agrees to use commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other parties in doing, all things necessary, proper or advisable to consummate and make effective, in the most expeditious manner practicable, the Merger and the other transactions contemplated by this Agreement, including (i) the obtaining of all necessary actions or non-actions, waivers, consents and approvals from Governmental Entities and the making of all necessary registrations and filings (including filings with Governmental Entities) and the taking of all reasonable steps as may be necessary to obtain an approval or waiver from, or to avoid an action or proceeding by, any Governmental Entity, (ii) the obtaining of all necessary consents, approvals or waivers from third parties, (iii) the defending of any lawsuits or other legal proceedings, whether judicial or administrative, challenging this Agreement or the consummation of the transactions contemplated hereby and (iv) the execution and delivery of any additional instruments necessary to consummate the transactions contemplated by this Agreement. In connection with and without limiting the foregoing, each of the Company and Itron and its respective Board of Directors shall (i) take all action reasonably necessary to ensure that no state takeover statute or similar statute or regulation is or becomes applicable to the Merger and (ii) if any state takeover statute or similar statute or regulation becomes applicable to the Merger, take all action reasonably necessary to ensure that the Merger may be consummated as promptly as practicable on the terms contemplated by this Agreement and otherwise to minimize the effect of such statute or regulation on the Merger.

(b) The Company shall give prompt notice to Itron, and Itron shall give prompt notice to the Company, of (i) any representation or warranty made by it contained in this Agreement becoming untrue or inaccurate in any material respect or (ii) the failure by it to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under this Agreement; provided, however, that no such notification shall affect the representations or warranties or covenants or agreements of the parties or the conditions to the obligations of the parties hereunder.

6.4 FEES AND EXPENSES

Except as provided in Article VIII, all fees and expenses incurred in connection with the Merger, this Agreement and the transactions contemplated hereby shall be paid by the party incurring such fees or expenses, whether or not the Merger is consummated.

6.5 PUBLIC ANNOUNCEMENTS

Itron and the Company will consult with each other before issuing any press release or otherwise making any public statements with respect to the transactions contemplated by this Agreement and shall not issue any such press release or make any such public statement prior to such consultation, except that each party may respond to questions from shareholders and

may respond to inquiries from financial analysts and media representatives in a manner consistent with its past practice and each party may make such disclosure as may be required by applicable law or by obligations pursuant to any listing agreement with any national securities exchange without prior consultation to the extent such consultation is not reasonably practicable. Except to the extent deemed necessary by Itron to comply with SEC or Nasdaq disclosure requirements, the parties agree that the initial press release or releases to be issued in connection with the execution of this Agreement shall be mutually agreed in writing upon prior to the issuance thereof.

6.6 AGREEMENT TO DEFEND

In the event any claim, action, suit, investigation or other proceeding by any Governmental Entity or other Person or other legal or administrative proceeding is commenced that questions the validity or legality of the transactions contemplated hereby or seeks damages in connection therewith, the parties hereto agree to cooperate and use their commercially reasonable efforts to defend against and respond thereto.

6.7 OTHER ACTIONS

Except as contemplated or otherwise permitted by this Agreement, neither Itron nor the Company shall, nor shall Itron permit any of its subsidiaries to, take or agree or commit to take any action that is reasonably likely to result in any of its respective representations or warranties hereunder being untrue in any material respect or in any of the conditions to the Merger set forth in Article VII not being satisfied.

6.8 THE COMBINATION COMPANY AND THE SURVIVING CORPORATION

Itron shall cause the Combination Company and the Surviving Corporation to approve and adopt, and to perform its obligations in accordance with, this Agreement and shall take any and all steps reasonably necessary to cause the Combination Company and the Surviving Corporation to effect the transactions contemplated hereby.

6.9 CONDUCT OF BUSINESS DURING THE EARNOUT PERIOD

During the Earnout Period, Itron shall, and Itron shall cause the Surviving Corporation to, (i) integrate the Company's former activities into Itron's organization as a portion of the existing EIS product group; (ii) operate or cause the RER Product Line to be operated in conformity with sound business practices; and (iii) shall make or cause to be made all business decisions with respect to the RER Product Line in good faith, with the objective of maximizing each of the Earnout Payments as required by this Agreement, consistent with Itron management's primary fiduciary duties to all of its shareholders. Itron shall not take nor permit to be taken any action which has the objective of the avoidance, circumvention or minimization of any of the Earnout Payments. Itron may transfer any or all of the service businesses of the RER Product Line to one or more other product groups within Itron provided that doing so will not prevent or hinder the direct measurement of Earnout Payments pursuant

to Section 3.2. Nothing in this Section 6.9, this Agreement or the Operative Documents shall prohibit the future merger of the Surviving Corporation with and into Itron.

6.10 EMPLOYEE MATTERS

Each of the employee benefit plans of the Company may be terminated prior to or concurrent with the Effective Time of the Merger, including without limitation, the Company Stock Option Plan provided, however, that the Company's 401 (k) plan shall not be terminated prior to or concurrent with the Effective Time of the Merger and provided further that the Company's medical plans that are listed on Section 4.1(o) of the Company Disclosure Schedule shall survive the Effective Time of the Merger. All employees that either remain with the Surviving Corporation or join Itron after the Merger will be eligible to participate in all of Itron's employee benefit plans that are generally available to all other Itron employees.

6.11 TAX MATTERS

(a) The Company shall in accordance with the Company's past practice prepare or cause to be prepared and file or cause to be filed all Tax Returns that are required to be filed before the Closing Date by or with respect to the Company for periods ending on or prior to the Closing Date and shall remit any Taxes due with respect to such Tax Returns.

(b) The Shareholder's Representatives shall, at no cost and expense to Itron or the Surviving Corporation, in accordance with the Company's past practice prepare or cause to be prepared and file or cause to be filed all Tax Returns that are required to be filed on or after the Closing Date by or with respect to the Company for periods ending on or prior to the Closing Date and shall cause to be remitted from the escrow provided in Section 3.1(d) any Taxes due with respect to such Tax Returns. The Shareholders' Representatives shall permit Itron to review and comment on each such Tax Return filed by them no later than thirty (30) days prior to the filing of such Tax Return and shall make such revisions to such Tax Returns as are reasonably requested by Itron.

(c) Notwithstanding anything to the contrary herein, the Shareholders' Representatives shall promptly cause to be reimbursed to Itron or the Surviving Corporation from the escrow provided in Section 3.1(d) when due any and all employment Taxes imposed on or with respect to the Company or any paying agent (including without limitation, Itron, the Exchange Agent or the Escrow Agent) by reason of or arising out of or in connection with the transactions contemplated under Section 5.10 of this Agreement.

(d) Itron shall in accordance with the Company's past practice prepare or cause to be prepared and file or cause to be filed all Tax Returns that are required to be filed by or with respect to the Company for all periods that begin before the Closing Date but end after the Closing Date (each a "Straddle Period"). The Shareholders' Representatives shall cause to be remitted from the escrow provided in Section 3.1(d) any Taxes due with respect to such Tax Returns that are properly allocated to the Pre-Closing Tax Period. For purposes of this Section 6.11(d), Taxes shall be allocated on the basis of the closing of the books method as of

the Closing Date; provided, however, in the case of any Tax imposed upon the ownership or holding of real or personal property, such Taxes shall be prorated based on the percentage of the actual period to which such Taxes relate that precedes the Closing Date. The Shareholders' Representatives and Itron shall share in the cost and expense of preparing and filing each such Tax Return in accordance with their respective share of the Taxes due with respect thereto. Itron shall permit the Shareholders' Representatives to review and comment on each such Tax Return no later than thirty (30) days prior to the filing date of such Tax Return and shall make such revisions to such Tax Returns as are reasonably requested by the Shareholders' Representatives.

(e) The Shareholders' Representatives shall cooperate fully, as and to the extent reasonably requested by Itron, in connection with the filing of Tax Returns pursuant to this Section 6.11 and any audit, litigation or other proceeding with respect to Taxes of the Company, and shall make available to Itron and to any Governmental Entity, as reasonably requested in connection with any Tax Return described in Section 6.11, all information relating to any Taxes or Tax Returns of the Company. Such cooperation shall also include, without limitation, the retention and (upon the other party's reasonable request) the provision of records and information that are reasonably relevant to any such Tax Return, audit, litigation or other proceeding.

6.12 ITRON CONSENTS

Itron will promptly apply for or otherwise seek, and use reasonable efforts to obtain, all consents and approvals, including that of its lenders, and make all filings, required with respect to the Company for the consummation of the Merger. The Company will, at Itron's request, use reasonable efforts to assist Itron in obtaining all such consents and approvals.

6.13 RETENTION OF KEY EMPLOYEES

The Company agrees that each of the Key Employees shall remain employed by the Surviving Corporation or Itron through April 15, 2004 (the "Retention Date"). If a Key Employee does not remain employed by the Surviving Corporation or Itron through the Retention Date, the Company Shareholders shall indemnify Itron, and Itron and the Shareholders' Representatives shall instruct the Escrow Agent to deduct from Escrow and make immediately payable to Itron, an amount equal to the lesser of the amount then remaining in the Escrow or either, (a) in the case of a Key Employee who is also a Founder, an amount equal to 250% of the base salary paid to such Key Employee during the immediately preceding twelve (12) months or (b) in the case of a non-Founder Key Employee, an amount equal to 125% of the base salary paid to such Key Employee during the immediately preceding twelve (12) months; provided, however, that no such payment shall be due with respect to a particular Key Employee's departure prior to the Retention Date if such departure is (i) with Good Reason, (ii) the result of termination without Cause or (iii) the result of the death or disability of such Key Employee. Payment to Itron from the Escrow in accordance with this Section 6.13 shall be Itron's sole remedy for the departure of any Key Employee.

ARTICLE VII.
CONDITIONS PRECEDENT

7.1 CONDITIONS TO EACH PARTY'S OBLIGATION TO EFFECT THE MERGER

The respective obligation of each party to effect the Merger is subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) GOVERNMENTAL ENTITY APPROVALS

All filings required to be made prior to the Effective Time of the Merger with, and all consents, approvals, permits and authorizations required to be obtained prior to the Effective Time of the Merger from, any Governmental Entity in connection with the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby shall have been made or obtained (as the case may be), except where the failure to obtain such consents, approvals, permits and authorizations could not reasonably be expected to have a Material Adverse Effect on the Company or Itron (assuming the Merger has taken place) or to materially adversely affect the consummation of the Merger.

(b) NO INJUNCTIONS OR RESTRAINTS

No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Merger shall be in effect.

(c) CONSENT OF ITRON'S LENDER

Itron shall have either (i) received the consent of its lender under its line of credit to consummate the Merger or (ii) have reasonably determined that its failure to obtain such consent would not have a Material Adverse Effect on Itron.

7.2 CONDITIONS OF ITRON

The obligation of Itron to consummate the Merger is further subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) SHAREHOLDER APPROVAL; SUPPORT AGREEMENTS; EMPLOYEE AGREEMENTS; NONDISCLOSURE AND INVENTION ASSIGNMENT AGREEMENTS

The Company shall have delivered to Itron at the time of execution of this Agreement executed copies of the Support Agreements attached hereto as Exhibits E and F, and shall have provided satisfactory evidence of the holding of the Meeting (or execution of a written consent in lieu thereof) and the Company's shareholders' approval of the Merger and all related transaction and agreements in form satisfactory to Itron. The Company shall also have delivered to Itron prior to the Closing Date executed copies of the Employee Agreements with

such of the Company Employees who shall be Company Shareholders immediately prior to the Effective Time of the Merger as a result of executing an Employee Agreement. In addition, the Company shall also have delivered to Itron prior to the Closing Date, executed copies of the Employee Proprietary Information and Inventions Agreement in the form attached hereto as Exhibit G, such agreements to be executed by each of the Key Employees.

(b) COMPLIANCE

The agreements and covenants of the Company to be complied with or performed on or before the Closing Date pursuant to the terms hereof shall have been duly complied with or performed in all material respects and Itron shall have received a certificate dated the Closing Date and executed on behalf of the Company by the chief executive officer and the chief financial officer of the Company to such effect.

(c) CERTIFICATIONS

The Company shall have furnished Itron with a certified copy of a resolution or resolutions duly adopted by the Board of Directors of the Company and the Company Shareholders as of the execution of this Agreement approving this Agreement and consummation of the Merger and the transactions contemplated hereby. Copies of the Company's Articles of Incorporation, certified by the California Secretary of State, and Bylaws, together with a list of the Company Shareholders including the number of Company Shares held by each of them immediately prior to the Effective Time of the Merger, certified by the Secretary of the Company, shall be attached to such certificate.

(d) REPRESENTATIONS AND WARRANTIES TRUE

The representations and warranties of the Company contained in this Agreement (other than any representations and warranties made as of a specific date) shall be true and correct in all material respects (except to the extent the representation or warranty is already qualified by materiality and/or the phrase "Material Adverse Effect," in which case it shall be true and correct in all respects) on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of such date, except where the failure of such representation or warranty to be true and correct would not, individually or on an aggregate basis, have a Material Adverse Effect on the Company, and Itron shall have received a certificate to that effect dated the Closing Date and executed on behalf of the Company by the chief executive officer or the chief financial officer of the Company.

(e) CONSENTS; RELATED MATTERS

Itron shall have received evidence, in form and substance reasonably satisfactory to it, that such licenses, permits, consents (including those consents and prior written approvals for the assignment of each of the Material Contracts), approvals, authorizations, qualifications and Orders of Governmental Entities and other third parties as are reasonably necessary in connection with the transactions contemplated hereby, including the Merger, have been

obtained, except such licenses, permits, consents, approvals, authorizations, qualifications and orders which are not, individually or in the aggregate, material to the Surviving Corporation, or the failure of which to have received would not (as compared to the situation in which such license, permit, consent, approval, authorization, qualification or Order had been obtained) have a Material Adverse Effect on the Surviving Corporation, or Itron, or both after giving effect to the Merger.

(f) COMPANY COUNSEL OPINION

Itron shall have received an opinion dated the Closing Date of Procopio, Cory, Hargreaves & Savitch LLP, counsel to the Company, in the form of Exhibit I attached hereto.

(g) NO LITIGATION

There shall not be pending or threatened by any Governmental Entity any suit, action or proceeding (i) challenging or seeking to restrain or prohibit the consummation of the Merger or any of the other transactions contemplated by this Agreement or seeking to obtain from Itron or any of its subsidiaries any damages that are material in relation to Itron and its subsidiaries, taken as a whole, (ii) seeking to prohibit or limit the ownership or operation by the Surviving Corporation of any material portion of the business or assets of the Company, or any of the other transactions contemplated by this Agreement or (iii) seeking to prohibit the Surviving Corporation from effectively controlling in any material respect the business or operations of the Company.

(h) ESCROW AGREEMENT

The Shareholders' Representatives, on behalf of the Company Shareholders, shall have executed and delivered the Escrow Agreement in substantially the form attached hereto as Exhibit A.

(i) TERMINATION OF CERTAIN AGREEMENTS

Any and all rights of refusal, co-sale rights and registration rights (other than pursuant hereto) for the benefit of the holders of Company Shares, or stock purchase rights relating to securities of the Company, and all shareholder agreements, all as set forth in the Company Disclosure Schedule, shall have terminated.

(j) EXERCISE OR TERMINATION OF WARRANTS AND STOCK PURCHASE RIGHTS; CONVERSION OF CONVERTIBLE SECURITIES

Any and all warrants, options and stock purchase rights relating to securities of the Company, and any and all securities and notes convertible at any time into Company Common Stock, vested and unvested, and regardless of restrictions on exercise or conversion, for shares of Company Common Stock shall have been exercised, repurchased or terminated, as the case may be, immediately prior to the Effective Time of the Merger.

(k) NO MATERIAL ADVERSE EFFECT

There shall not have occurred any change in the business or properties of the Company that would have a Material Adverse Effect on the Company from the date of this Agreement through the Closing Date.

7.3 CONDITIONS OF THE COMPANY

The obligation of the Company to consummate the Merger is further subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) COMPLIANCE

The agreements and covenants of Itron and the Combination Company to be complied with or performed on or before the Closing Date pursuant to the terms hereof shall have been duly complied with or performed in all material respects and the Company shall have received a certificate dated the Closing Date on behalf of Itron and the Combination Company by the chief executive officer and the chief financial officer of Itron and the Combination Company to such effect.

(b) CERTIFICATIONS

Itron shall have furnished the Company with a certified copy of a resolution or resolutions duly adopted by the Board of Directors or a duly authorized committee thereof of Itron and the Combination Company approving this Agreement and consummation of the Merger and the transactions contemplated hereby.

(c) REPRESENTATIONS AND WARRANTIES TRUE

The representations and warranties of Itron and the Combination Company contained in this Agreement (other than any representations and warranties made as of a specific date) shall be true and correct in all material respects (except to the extent the representation or warranty is already qualified by materiality or the phrase "Material Adverse Effect," in which case it shall be true and correct in all respects) on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of such date, and the Company shall have received a certificate to that effect dated the Closing Date and executed on behalf of Itron and the Combination Company by the chief executive officer or the chief financial officer of Itron.

(d) ITRON COUNSEL OPINION

The Shareholders' Representatives shall have received an opinion dated the Closing Date of Perkins Coie LLP, counsel to Itron and the Combination Company, in the form of Exhibit J attached hereto.

(e) NO LITIGATION

There shall not be pending or threatened by any Governmental Entity any suit, action or proceeding (i) challenging or seeking to restrain or prohibit the consummation of the Merger or any of the other transactions contemplated by this Agreement or seeking to obtain from the Company, the Surviving Corporation or any of their respective subsidiaries any damages that are material in relation to the Company, (ii) seeking to prohibit or limit the ownership or operation by the Surviving Corporation or any of its subsidiaries of any material portion of the business or assets of the Company, or any of the other transactions contemplated by this Agreement or (iii) seeking to prohibit the Surviving Corporation or any of its subsidiaries from effectively controlling in any material respect the business or operations of the Company.

(f) NO MATERIAL ADVERSE EFFECT

Since the date of this Agreement for a period through the Closing Date, there shall not have occurred any change in the business or properties of Itron that would have a Material Adverse Effect on Itron.

(g) ESCROW AGREEMENT

Itron shall have executed and delivered the Escrow Agreement in substantially the form attached hereto as Exhibit A.

ARTICLE VIII.
TERMINATION, AMENDMENT AND WAIVER

8.1 TERMINATION

This Agreement may be terminated and the Merger abandoned at any time prior to the Effective Time of the Merger pursuant to the following.

(a) By mutual written consent of Itron, the Combination Company and the Company.

(b) By either Itron or the Company:

(i) if any court of competent jurisdiction or any governmental, administrative or regulatory authority, agency or body shall have issued an Order, decree or ruling or taken any other action permanently enjoining, restraining or otherwise prohibiting the Merger; or

(ii) if the Merger shall not have been consummated on or before October 31, 2002; provided, however, that the right to terminate this Agreement under this Section 8.1(b)(ii) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the Effective Time of the Merger to occur on or before such date.

(c) by Itron if the Company (x) breaches in any material respect any of its representations or warranties herein such that the condition set forth in Section 7.2(d) cannot be satisfied within twenty (20) calendar days following receipt by the Company of notice of breach, or (y) fails to perform in any material respect any of its covenants, agreements or obligations under this Agreement within twenty (20) calendar days following receipt by the Company of notice of breach, if such failures result in or would reasonably be expected to result in a Material Adverse Effect on the Company.

(d) by the Company if Itron (x) breaches in any material respect any of its representations or warranties herein such that the condition set forth in Section 7.3(c) cannot be satisfied within twenty (20) calendar days following receipt by Itron of notice of breach, or (y) fails to perform in any material respect any of its covenants, agreements or obligations under this Agreement within twenty (20) calendar days following receipt by Itron of notice of breach, if such failures result in or would reasonably be expected to result in a Material Adverse Effect on Itron.

8.2 EFFECT OF TERMINATION

In the event of termination of this Agreement by either the Company or Itron as provided in Section 8.1, this Agreement shall forthwith become void and have no effect, without any current or future liability or obligation on the part of Itron or the Company, other than the confidentiality provisions of Sections 6.2, 6.4, 6.5 and the provisions of Article IX. Any termination of this Agreement pursuant to Section 8.1 shall not relieve any party hereto for liabilities related to any breach of any of its representations, warranties, covenants or agreements in this Agreement, which right to recover damages shall be in addition to (and not exclusive of) any other remedy at law or in equity available to any party. Notwithstanding and in addition to the foregoing, if Itron or the Company terminates this Agreement following a breach hereof by the other party, in accordance with Section 8.1(c) or Section 8.1(d), respectively, such breaching party shall reimburse the non-breaching party for all of its reasonable out-of-pocket expenditures incurred in connection with this Agreement.

8.3 AMENDMENT

This Agreement may be amended by the parties at any time before or after any required approval of matters presented in connection with the Merger by the Company Shareholders; provided, however, that after any such approval, there shall be made no amendment that by law requires further approval by such shareholders without the further approval of such shareholders. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

8.4 EXTENSION; WAIVER

At any time prior to the Effective Time of the Merger, the parties may, to the extent legally allowed, (a) extend the time for the performance of any of the obligations or the other acts of the other parties, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto or (c) subject to the proviso of Section 8.3, waive compliance with any of the agreements or conditions contained herein. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights. If, prior to the Closing Date, either party to this Agreement acquires actual knowledge of any specific information inconsistent with the representations and warranties of the other party to this Agreement, such party shall provide such information to the other party; and, if such party nevertheless elects not to terminate this Agreement, then such party shall not be entitled to rely on any representations or warranties which are inconsistent with such information.

8.5 PROCEDURE FOR TERMINATION, AMENDMENT, EXTENSION OR WAIVER

A termination of this Agreement pursuant to Section 8.1, an amendment of this Agreement pursuant to Section 8.3 or an extension or waiver pursuant to Section 8.4 shall, in order to be effective, require in the case of Itron or the Company, action by its respective Board of Directors or the duly authorized designee of such Board of Directors.

ARTICLE IX.
NO SOLICITATION

9.1 NO SOLICITATION

Prior to the Effective Time of the Merger, the Company agrees that neither it, nor any of its directors, officers, employees, agents or representatives will (i) solicit or initiate any inquiries or the making of any proposal with respect to any merger, consolidation or other business combination involving the Company or the acquisition of any of the assets or capital stock of the Company (a "Takeover Proposal") or (ii) negotiate, explore or otherwise engage in discussion with any Person (other than Itron and its representatives) with respect to any Takeover Proposal, or which may reasonably be expected to lead to a Takeover Proposal, or

(iii) enter into any agreement, arrangement or understanding with respect to any such Takeover Proposal or which would require it to abandon, terminate or fail to consummate the Merger or any other transaction contemplated by this Agreement

9.2 TERMINATION OF CURRENT DISCUSSIONS

The Company agrees that, as of the date hereof, it and its directors, officers, employees, agents and representatives, shall immediately cease and cause to be terminated any existing activities, discussions or negotiations with any Person (other than Itron and its representatives) conducted heretofore with respect to any Takeover Proposal. The Company agrees to promptly advise Itron of any inquiries or proposals received by, any such information requested from, or any negotiations or discussions sought to be initiated or continued with, the Company, or any of its directors, officers, employees, agents or representatives, in each case from a Person (other than Itron and its representatives) with respect to a Takeover Proposal, and the terms thereof, including the identity of such third party and the general terms of any financing arrangement or commitment in connection with such Takeover Proposal, and, to update on an ongoing basis or upon Itron's reasonable request, the status thereof, as well as any actions taken or other developments pursuant to this Article IX.

ARTICLE X.
INDEMNIFICATION

10.1 INDEMNIFICATION BY COMPANY SHAREHOLDERS

Subject to Sections 10.5 and 10.6, each of the Company Shareholders shall, on a several and proportionate basis as specified below in Section 10.6(a), defend, indemnify, and hold Itron and the Surviving Corporation and their respective directors, officers and other Affiliates harmless from and against, and reimburse Itron and the Surviving Corporation and their respective directors, officers and other Affiliates with respect to, any and all Losses incurred by them by reason of or arising out of or in connection with: (a) any breach, or any claim (including claims by parties other than Itron) that if true, would constitute a breach of any representation or warranty of the Company contained in this Agreement, (b) the failure, partial or total, of the Company or the Shareholders' Representatives to perform any agreement or covenant required by this Agreement, and (c) any third-party claims (including claims by Company Shareholders or Governmental Entities) arising from the transactions contemplated in Section 5.10 hereof. The indemnification obligations of the Company Shareholders pursuant to the foregoing sentence shall apply only to the extent that the aggregate Losses incurred in connection therewith exceed One Hundred Thousand Dollars ($100,000) (the "Shareholder Basket"); provided, however, that the Shareholder Basket shall not apply to the indemnification obligations of the Company Shareholders for breaches of representations and warranties under Sections 4.1(j) and 4.1(o) or the indemnification obligations of the Company Shareholders under Sections 6.11 or 6.13 of this Agreement or that may arise from any failure to comply with any post-Closing covenants of the Company Shareholders under this Agreement.

10.2 INDEMNIFICATION BY ITRON

Subject to Section 10.5, Itron agrees to defend, indemnify, and hold harmless the Company Shareholders from and against, and to reimburse the Company Shareholders with respect to, any and all Losses incurred by the Company Shareholders by reason of or arising out of or in connection with: (a) any breach, or any claim (including claims by parties other than the Company or the Company Shareholders) that if true, would constitute a breach of any representation or warranty of Itron contained in this Agreement, and (b) the failure, partial or total, of Itron to perform any agreement or covenant required by this Agreement to be performed by it. The indemnification obligations of Itron pursuant to clauses (a) and (b) of the foregoing sentence shall apply only to the extent that the aggregate Losses incurred in connection therewith exceed One Hundred Thousand Dollars ($100,000) (the "Itron Basket"); provided, however, that the Itron Basket shall not apply to the indemnification obligations of Itron that may arise from any failure to comply with any post-Closing covenants of Itron under this Agreement.

10.3 CLAIMS BETWEEN THE PARTIES

All claims for indemnification under this Agreement, other than Third Party Claims as described in Section 10.4, shall be resolved in accordance with the following procedures:

(a) NOTICE OF CLAIMS

(i) If an indemnified party reasonably believes that it has incurred or may incur any Losses, it shall deliver a Claim Notice to the indemnifying party with respect to such Losses. The failure to give such notice shall not affect the rights of the indemnified party or parties except to the extent that the indemnifying party is materially prejudiced by such failure.

(ii) When Losses are actually incurred or paid by an indemnified party or on an indemnified party's behalf or otherwise fixed or determined, the indemnified party shall deliver a Payment Certificate to the indemnifying party for such Losses.

(iii) If, after receiving a Payment Certificate, the indemnifying party desires to dispute such claim or the amount claimed in the Payment Certificate, it shall deliver to the indemnified party within thirty (30) days a Counternotice as to such claim or amount. If no such Counternotice is received within the aforementioned thirty (30) day period, the indemnifying party shall be deemed to have accepted liability in respect of the Payment Certificate.

(iv) The parties will use good faith efforts for a thirty (30) day period in an effort to resolve the issue. If, however, within thirty (30) days after receipt or deemed receipt by the indemnified party of the Counternotice to a Payment Certificate, the parties have not reached agreement as to the claim or amount in question, the claim for indemnification shall be decided in accordance with the provisions of Section 10.3(b), unless otherwise specified in this Agreement.

(v) With respect to any Losses for which indemnification is being claimed based upon an asserted liability or obligation to a Person or entity not a party to this Agreement, the obligations of the indemnifying party hereunder shall not be reduced as a result of any action by the indemnified party in responding to such claim if such action is reasonably required to minimize damages, avoid a forfeiture or penalty, or comply with a legal requirement.

(vi) For purposes of this Section 10.3, a Company Shareholders who is an indemnifying party hereunder shall be deemed to have received notice for purposes of this Article X, once the Shareholders' Representatives have all received a Claim Notice or Payment Certificate, as applicable.

(b) RESOLUTION OF CLAIMS

(i) All claims for indemnification under this Agreement, other than Third Party Claims as described in Section 10.4, shall be submitted to the American Arbitration Association ("AAA") for final and binding arbitration in San Diego, California, which arbitration shall, except as specifically stated herein, be conducted in accordance with the AAA Commercial Arbitration Rules (the "AAA Rules") then in effect; provided, however, that the parties agree first to try in good faith to resolve any claim for indemnification that does not exceed Two Hundred Fifty Thousand Dollars ($250,000) by mediation under the AAA Commercial Mediation Rules, before resorting to arbitration; provided, further, that, in the event of an arbitration, the arbitration provisions of this Agreement shall govern over any conflicting rules which may now or hereafter be contained in the AAA Rules.

(ii) The final decision of the arbitrator(s) shall be a reasoned opinion based on applicable law and furnished in writing to the parties and will constitute a conclusive determination of the issue in question, binding upon the parties. The arbitrator(s) shall have the authority to grant any equitable and legal remedies that would be available in any judicial proceeding instituted to resolve a claim for indemnification. Any judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction over the subject matter thereof.

(iii) The parties shall select the arbitrator by mutual agreement promptly following initiation of arbitration in accordance with the AAA Rules; provided, however, that in the event the parties are unable to reach such agreement within twenty (20) days of initiation, the AAA shall have the authority to select an arbitrator from a list of arbitrators who are partners in a nationally recognized firm of independent certified public accountants from the management advisory services department (or comparable department or group) of such firm or who are partners in a major law firm and who have significant experience in acquisition transactions similar to the transactions contemplated by this Agreement; provided, however, that such accounting firm or law firm cannot be a firm that has within the last three (3) years rendered, or is then rendering, services to any party hereto or, in the case of a law firm, appeared, or is then appearing, as counsel of record in opposition to any party hereto.

Any arbitrator selected to serve shall be qualified by training and experience for the matters for which such arbitrator is designated to serve. If the parties are unable to agree upon one arbitrator, each shall appoint an arbitrator and these appointees shall appoint a third arbitrator, in which case the arbitration determination shall be made by a majority decision of the three selected arbitrators.

(iv) The prevailing party in any arbitration shall be entitled to an award of reasonable attorneys' fees and costs, and all costs of arbitration, including those provided for above, will be paid by the losing party, subject in each case to a determination by the arbitrator as to which party is the prevailing party and the amount of such fees and costs to be allocated to such party. Any amounts payable under this subsection will be reimbursed as if the amount of such awarded fees and costs were not contested, and the parties will have no further liability for any amounts payable under this Section 10.3(b) for such fees and costs.

(v) The arbitrator(s) chosen in accordance with these provisions shall not have the power to alter, amend or otherwise affect the terms of these arbitration provisions or the provisions of this Agreement or any other documents that are executed in connection therewith.

10.4 THIRD PARTY CLAIMS

(a) If an indemnified party receives notice of a demand for arbitration, summons or other notice of the commencement of a proceeding, audit, investigation, review, suit or other action by a third party (any such action a "Third Party Claim") for which it intends to seek indemnification hereunder, it shall give the indemnifying party prompt written notice of such claim (together with all copies of the claim, any process served, and all filings with respect thereto), so that the indemnifying party's defense of such claim under this Section 10.4 may be timely instituted. The indemnifying party under this Article X shall have the right to conduct and control, through counsel (reasonably acceptable to the indemnified party) of its own choosing and at its own cost, any Third Party Claim, compromise, or settlement thereof. Assumption by an indemnifying party of control of any such defense, compromise, or settlement shall not be a waiver by it of its right to challenge its obligation to indemnify the indemnified party. The indemnified party may, at its election, participate in the defense of any such claim, action, or suit through counsel of its choosing, but the fees and expenses of such counsel shall be at the expense of the indemnified party, unless the indemnified party shall have been advised by such counsel that there may be one or more legal defenses available to it that are different from or in addition to those available to the indemnifying party (in which case, if the indemnified party notifies the indemnifying party in writing that it elects separate counsel at the expense of the indemnifying party, the indemnifying party shall not have the right to assume the defense of such action on behalf of the indemnified party with respect to such defenses).

(b) If the indemnifying party fails to defend diligently any Third Party Claim, then the indemnified party may defend, with counsel of its own choosing, and (i) settle such Third

Party Claim and then recover from the indemnifying party the amount of such settlement or of any judgment and the reasonable costs and expenses of such defense, or (ii) litigate the Third Party Claim to the completion of trial or arbitration and then promptly recover from the indemnifying party the reasonable costs and expense of such defense and the amount of the judgment, verdict or award, if any, against the indemnified party.

(c) Notwithstanding Section 10.4(b)(i), the indemnifying party shall not be liable to pay or otherwise satisfy any settlement of a Third Party Claim unless the indemnified party shall have given the indemnifying party written notice of the terms of the proposed settlement at least twenty (20) days prior to entering into such settlement.

(d) Without the consent of the indemnified party, the indemnifying party shall not compromise or settle any Third Party Claim if such settlement involves an admission of liability or wrongdoing on the party of the indemnified party, or a restriction on the operation of the indemnified party's business in the future or would adversely affect the business reputation or Tax liability of the indemnified party. No Third Party Claim may be settled by an indemnifying party without the written consent of the indemnified party, which consent shall not be unreasonably withheld or delayed. No settlement of a Third Party Claim that involves the payment of money only shall be made by any indemnifying party unless the indemnifying party has and reserves a sufficient amount of immediately available funds to provide for such settlement.

(e) Itron, the Shareholders' Representatives, and the Surviving Corporation shall cooperate in all reasonable respects with each other in connection with the defense, negotiation, or settlement of any legal proceeding, claim, or demand referred to in this Section 10.4.

10.5 TIME LIMIT

The provisions of this Article X (other than the last sentence of Section 10.6(a)) shall apply only to Losses that are incurred or relate to claims, demands, or liabilities that are asserted or threatened before May 1, 2004; provided, however, that: (i) the obligation of either party to indemnify the other and its directors and officers for such claims for which a Claim Notice is given within the time period set forth above shall continue until the final resolution of each such claim; (ii) the limitation set forth in this Section 10.5 shall not apply to any right to indemnification (a) for a breach of Section 6.11 hereof, (b) for a failure to perform or observe any agreement or covenant set forth in this Agreement and required to be performed or observed after the Closing Date or (c) for any of the representations set forth in Sections 4.1(a) (other than the last sentence thereof), 4.1(b) 4.1(c)(i), 4.2(a), 4.2(b) and 4.2(c)(i), which shall survive the Effective Time of the Merger indefinitely; and (iii) the representations set forth in Section 4.1(j) or 4.1(o)and the obligations of the Shareholders' Representatives under Section 6.11, shall survive until the expiration of the applicable statute of limitations for the underlying liability, plus 30 days.

10.6 LIMITATIONS

(a) The aggregate amount for which the Company Shareholders shall be liable pursuant to this Article X (including but not limited to Sections 6.11 and 6.13) shall not exceed One Million Four Hundred Thousand Dollars ($1,400,000); provided, however, that the limitation set forth in this Section 10.6 shall not apply to any right to indemnification for any breach or claim of breach of the representations and warranties contained Sections 4.1(a) (other than the last sentence thereof), 4.1(b), or 4.1(c)(i). In addition, the liability of each Company Shareholders shall not exceed such Company Shareholder's proportionate share of the One Million Four Hundred Thousand Dollars ($1,400,000), based on the number of Company Shares held immediately prior to the Effective Time of the Merger. Except for Losses based upon fraud or knowing misrepresentation by the Company or the Company Shareholders, the sole remedy of Itron for breaches of this Agreement shall be claims made in accordance with and subject to the limitations in this Article X.

(b) The indemnification obligations of the Company Shareholders under this Article X shall be satisfied by payment to Itron of a proportionate amount of the obligations by all Company Shareholders from the Escrow, based on the number of Company Shares held immediately prior to the Effective Time of the Merger. The aggregate value of claims paid by means of the payments to Itron pursuant to this Article X shall be deemed to reduce the total Merger Consideration otherwise payable to the Company Shareholders pursuant to Section 3.1.

10.7 SHAREHOLDERS' REPRESENTATIVES

(a) Frederick D. Sebold and J. Stuart McMenamin shall be constituted and appointed as agents (the "Shareholders' Representatives") for and on behalf of the Company Shareholders, their respective Affiliates and their respective representatives to give and receive notices and communications, to organize or assume the defense of third-party claims, to agree to, negotiate or enter into settlements and compromises of, and demand arbitration and comply with orders of courts and awards of arbitrators with respect to third-party claims, and to take all actions necessary or appropriate in the judgment of the Shareholders' Representatives for the accomplishment of the foregoing. Such agency may be changed by the holders of rights to receive at least seventy-five percent (75%) of the Merger Consideration upon not less than ten (10) days' prior written notice to Itron. No bond shall be required of the Shareholders' Representatives, and the Shareholders' Representatives shall receive no compensation for services rendered; provided, however, that they shall be entitled to reimbursement of their expenses in serving as Shareholders' Representatives. Notices or communications to or from the Shareholders' Representatives shall constitute notice to or from the Company Shareholders.

(b) The Shareholders' Representatives shall not be liable to any of the Company Shareholders for any act done or omitted hereunder as Shareholders' Representatives except to the extent they individually or collectively acted with gross negligence or willful misconduct, and any act done or omitted pursuant to the advice of counsel shall be conclusive evidence that the Shareholders' Representatives did not act with gross negligence or willful misconduct. The

Company Shareholders shall severally and proportionately indemnify the Shareholders' Representatives and hold them harmless against any loss, liability or expense incurred without gross negligence or bad faith on the part of the Shareholders' Representatives and arising out of or in connection with the acceptance or administration of the duties hereunder. Upon written notice to Itron of the amount of any such loss, liability or expenses incurred by the Shareholders' Representatives, Itron shall pay such amount out of the Earnout Payments otherwise payable to the Earnout Payees.

(c) The Shareholders' Representatives shall have reasonable access to information about the former Company business and operations and the reasonable assistance of Itron's officers and employees for purposes of performing their duties and exercising their rights hereunder; provided, that the Shareholders' Representatives shall treat confidentially and not disclose any nonpublic information from or about Itron to anyone (except on a need to know basis to individuals who agree to treat such information confidentially). The Shareholders' Representatives shall be third party beneficiaries of the terms of this Section 10.7.

10.8 ACTIONS OF THE SHAREHOLDERS' REPRESENTATIVES

A unanimous decision, act, consent or instruction of the Shareholders' Representatives shall constitute a decision of all Company Shareholders and shall be final, binding and conclusive upon each such Company Shareholder and Itron may rely upon any written decision, act, consent or instruction of the Shareholders' Representatives as being the decision, act, consent or instruction of the Company Shareholders. Itron is hereby relieved from any liability to any Person for any acts done by them in accordance with such written decision, act, consent or instruction of the Shareholders' Representatives.

ARTICLE XI.
GENERAL PROVISIONS

11.1 SURVIVAL OF REPRESENTATIONS AND WARRANTIES

The representations and warranties made by the parties to this Agreement and contained herein or in any instrument delivered by the Company or Itron pursuant to this Agreement shall survive until May 1, 2004; provided that the warranties contained in Section 4.1(j) shall survive until the relevant expiration of the statute of limitations period and Sections 4.1(a) (other than the last sentence thereof), 4.1(b), 4.1(c)(i), 4.2(a), 4.2(b) and 4.2(c)(i) shall survive indefinitely.

11.2 NOTICES

All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or by confirmed facsimile or sent by overnight courier with written verification of receipt to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) if to the Company, to:

Regional Economic Research, Inc.
11236 El Camino Real
San Diego, CA 92130-2650
Attention: Fredrick D. Sebold, Ph.D.
Telephone: 858-481-0081
Facsimile: 858-481-7550

with a copy to:

Procopio, Cory, Hargreaves & Savitch LLP
530 B Street, Suite 2100
San Diego, CA 92101
Attention: Craig Sapin
Telephone: (619) 238-1900
Facsimile: (619) 235-0398

(b) if to Itron or the Surviving Corporation, to:

Itron, Inc.
2818 North Sullivan Road
Spokane, WA 99216
Attention: CFO
Telephone: (509) 891-3488
Facsimile: (509) 891-3334

with a copy to:

Perkins Coie LLP
1201 Third Avenue, Suite 4800
Seattle, WA 98101-3099
Attention: Andrew Bor
Telephone: (206) 583-8888
Facsimile: (206) 583-8500

(c) if to the Shareholders' Representative, to each of:

Frederick D. Sebold, Ph.D.
441 Holmwood Lane
Solana Beach, CA 92075
Telephone: (858) 755 1471
Facsimile: (858) 481-8402

J. Stuart McMenamin, Ph.D.
4835 Ladera Sarina Dr.
Del Mar, CA 92014
Telephone: (858) 259-5755

with a copy to:

Procopio, Cory, Hargreaves & Savitch LLP
530 B Street, Suite 2100
San Diego, CA 92101

Attention: Craig Sapin
Telephone: (619) 238-1900
Facsimile: (619) 235-0398

11.3 INTERPRETATION

When a reference is made in this Agreement to a Section, Exhibit or Schedule, such reference shall be to a Section of, or an Exhibit or Schedule to, this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the word "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation."

11.4 COUNTERPARTS; FACSIMILE EXECUTION

This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid and binding obligation of the executing party with the same force and effect as if such facsimile signature page were an original thereof.

11.5 ENTIRE AGREEMENT; NO THIRD-PARTY BENEFICIARIES EXCEPT THE COMPANY SHAREHOLDERS AND THE SHAREHOLDERS' REPRESENTATIVES

This Agreement (including the documents and instruments referred to herein) and the Confidentiality Agreement (a) constitute the entire agreement and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof and (b) are not intended to confer upon any Person other than the parties, the Company Shareholders and the Shareholders' Representatives any rights or remedies hereunder, except as otherwise specified herein. This Agreement may not be amended except by a writing signed by all parties consistent with the requirements of Section 8.3.

11.6 GOVERNING LAW; VENUE

This Agreement shall be governed by, and construed in accordance with, the laws of the State of California, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof, and venue for any action taken in connection herewith or related hereto shall exclusively reside in the courts of San Diego County, California.

11.7 ASSIGNMENT

Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties without the prior written consent of the other parties. This Agreement will be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.

11.8 ENFORCEMENT OF THIS AGREEMENT

The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of the United States, this being in addition to any other remedy to which they are entitled at law or in equity.

11.9 SEVERABILITY

In the event any one or more of the provisions contained in this Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. The parties shall endeavor in good faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions, the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

(remainder of page intentionally left blank)

IN WITNESS WHEREOF, Itron, the Combination Company and the Company have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the date first written above.

ITRON, INC.

By: /s/ David G. Remington

Name: David G. Remington

Title: VP & CFO

RER COMBINATION, INC.

By: /s/ David G. Remington

Name: David G. Remington

Title: President & CFO

REGIONAL ECONOMIC RESEARCH, INC.

By: /s/ Frederick D. Sebold, Ph.D

Name: Frederick D. Sebold, Ph.D

Title: President

ACKNOWLEDGED, AS SHAREHOLDER REPRESENTATIVES:

/s/ Frederick D. Sebold

Frederick D. Sebold

/s/ J.Stuart McMenamin

J. Stuart McMenamin

EXHIBIT 2.3

COMBINATION AGREEMENT

By and Among

EMOBILE DATA CORPORATION,

MARC JONES,

EMD COMBINATION, INC.

and

ITRON, INC.

August 30, 2002

CONTENTS

COMBINATION AGREEMENT

THIS COMBINATION AGREEMENT, dated as of August 30, 2002 (this "Agreement"), is by and among EMOBILE DATA CORPORATION, a Yukon corporation (the "Company"), MARC JONES, President and CEO of the Company ("Jones"), EMD COMBINATION, INC., a Yukon corporation and wholly-owned subsidiary of Itron (the "Combination Company"), and ITRON, INC., a Washington corporation ("Itron").

RECITALS

A. The parties hereto desire to consummate an amalgamation whereby the Combination Company will be amalgamated with and into the Company (the "Amalgamation"), all upon the terms and subject to the conditions set forth in this Agreement and in accordance with the Yukon Business Corporations Act, as amended (the "YBCA"), whereby the Company Shareholders will receive redeemable shares of the Surviving Corporation and such shares will be immediately redeemed for an aggregate cash consideration of US$6,200,000 in accordance with this Agreement.

B. The respective Boards of Directors of Itron, the Combination Company and the Company have reviewed and approve of the terms of the Amalgamation.

C. Concurrently with the execution of this Agreement, each Company Shareholder who is also an employee of the Company will consent to and approve the Amalgamation and will enter into agreements whereby each of them will support the Amalgamation and grant a proxy to Itron for purposes of voting their respective interests in the Company at any Company shareholders' meeting or any consent or other corporate action in lieu of shareholders' meeting regarding the Amalgamation.

D. The parties hereto have agreed that, as security for the indemnification provided hereunder by Jones, to Itron, a cash escrow (the "Indemnification Escrow") in the amount of Five Hundred Thousand American Dollars (US$500,000) shall be established in accordance with the terms and conditions of the Indemnification Escrow Agreement attached hereto as Exhibit A (the "Indemnification Escrow Agreement"), with such escrow funds to be provided by Jones.

E. The parties hereto have also agreed that, as security for a post-closing adjustment in the amount of Amalgamation Consideration to be received by the Company Shareholders, equal to the amount by which the net working capital of the Company at the Effective Time of the Amalgamation is more than CDN$1.5 million less than the net working capital of the Company at March 31, 2002, a cash escrow (the "Adjustment Escrow") in the amount of Four Hundred and Fifty Thousand American Dollars (US$450,000) shall be established in accordance with the terms and conditions of the Adjustment Escrow Agreement attached hereto as Exhibit B (the "Adjustment Escrow Agreement").

F. Itron, the Combination Company and the Company desire to make certain representations, warranties and agreements in connection with the Amalgamation and also to prescribe various conditions to the Amalgamation.

NOW, THEREFORE, in consideration of the premises and the representations, warranties and agreements herein contained, the parties agree as follows:

AGREEMENT

ARTICLE I
DEFINITIONS

For purposes of this Agreement, unless otherwise defined herein, capitalized terms and terms listed herein shall have the following meanings:

"Accounting Arbitrator" shall mean the independent accounting firm to be mutually designed by the Shareholder Representative and Itron from time to time as necessary pursuant to Section 3.1(f)

"Accounts" shall have the meaning as given in Section 4.1(x).

"Adjustment Escrow" shall have the meaning as given in the Recitals hereto.

"Adjustment Escrow Agent" shall have the meaning as given in Section 3.1(e).

"Adjustment Escrow Agreement" shall have the meaning as given in the Recitals hereto.

"Adjustment Escrow Amount" shall have the meaning as given in Section 3.1(f).

"Affiliate" shall mean, with respect to any Person, (i) any Person who is a director, executive officer or the equivalent of that Person, (ii) any Person who directly or indirectly holds a ten percent (10%) or greater equity position in that Person, whether through shares, partnership interests, limited liability company interests, or otherwise, (iii) any Person in whom that Person holds, directly or indirectly, a ten percent (10%) or greater equity position, whether through shares, partnership interests, limited liability company interests, or otherwise, and (iv) any Person that controls that Person or any Person controlled by that Person, in either case directly or indirectly.

"Agreement" shall have the meaning as given in the Preamble hereto.

"Amalgamation" shall have the meaning as given in the Recitals hereto.

"Amalgamation Agreement" shall mean the amalgamation agreement substantially in the form and content of Exhibit C hereto and any amendments or variations thereto made in accordance therewith.

"Amalgamation Consideration" shall have the meaning as given in Section 3.1(c).

"Amalgamation Filings" shall have the meaning as given in Section 2.2.

"Amalgamation Resolution" shall mean the resolutions of the Company Shareholders to be substantially in the form and content of Exhibit E hereto;

"Application Software" shall have the meaning as given in Section 4.1(k).

"Articles of Amalgamation" shall mean the articles of amalgamation of the Surviving Corporation, which shall set forth the rights, privileges, restrictions and conditions attaching to each class of shares of the Surviving Corporation substantially in the form and content of Schedule 1 to the Amalgamation Agreement.

"Assets" shall mean all of the properties and assets owned, leased, or licensed by the Company, except for the Leased Premises, whether personal or mixed, tangible or intangible, wherever located.

"Business Condition" with respect to any entity shall mean the business, assets, liabilities (absolute, accrued, contingent or otherwise), condition (financial or other), results of operations (without giving effect to the consequences of the Amalgamation contemplated by this Agreement) or prospects of such entity and any of its subsidiaries, taken as a whole.

"Business Day" shall mean a day other than a Saturday, a Sunday, or a day on which banks in Spokane, Washington or Vancouver, British Columbia are permitted or required by law to close.

"Certificate" shall have the meaning as given in Section 3.2(c).

"Claim Notice" shall mean a written notice in reasonable detail of the facts and circumstances that form the basis of an indemnification claim hereunder and setting forth an estimated range or amount of the potential Losses, if possible, and the sections of this Agreement upon which the claim for indemnification for such Losses is based.

"Closing" shall have the meaning as given in Section 2.2.

"Closing Date" shall have the meaning as given in Section 2.2.

"Code" shall mean the United States Internal Revenue Code of 1986, as amended.

"Combination Company" shall mean EMD Combination, Inc., a Yukon corporation.

"Common Share Number" shall have the meaning as given in Section 3.1(c).

"Company" shall mean eMobile Data Corporation, a Yukon corporation.

"Company Common Shares" shall have the meaning as given in Section 4.1(b).

"Company Disclosure Schedule" shall mean a document referring specifically to the representations and warranties in this Agreement that is delivered by the Company to Itron prior to the execution of this Agreement.

"Company Intellectual Property Registrations" shall have the meaning as given in Section 4.1(k).

"Company Intellectual Property Rights" shall have the meaning as given in Section 4.1(k).

"Company's Knowledge" shall mean the actual knowledge, with an obligation to conduct a reasonable inquiry, of Marc Jones, Per Tveita and John Lam.

"Company Options" shall mean the Company Common Share purchase options granted under the Company Stock Option Plan, or under any predecessor plan or arrangement under which Company Options were granted to employees, officers, directors and consultants of the Company as set out in the Company Disclosure Schedule.

"Company Permits" shall have the meaning as given in Section 4.1(j).

"Company Regulatory Approvals" shall mean the approval of the TSX Venture Exchange to the Amalgamation and the transactions contemplated thereby.

"Company Representative" shall mean any director, officer, agent, employee, affiliate, attorney, accountant, financial advisor or other representative of the Company or its Affiliates.

"Company Shareholders" shall mean persons individuals holding Company Shares as of the Closing Date.

"Company Shares" shall mean the issued and outstanding shares of share capital of the Company as of the Closing Date.

"Company Stock Option Plan" shall have the meaning as given in Section 4.1(b).

"Company Technology" shall have the meaning as given in Section 4.1(k).

"Company Warrants" shall mean the warrants of the Company exercisable for Company Common Shares as set out in the Company Disclosure Schedule.

"Confidentiality Agreement" shall have the meaning as given in Section 6.2(a).

"Consent" shall mean a consent, approval, Order, or authorization of, or registration, declaration, or filing with, or exemption by any third party, including without limitation, by any Governmental Entity.

"Contractual Documents" shall have the meaning as given in Section 4.1(c).

"Control" shall mean, with respect to any specified Person, the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of Voting Stock, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Counternotice" shall mean a written objection to a claim or payment setting forth the basis for disputing such claim or payment.

"Court" shall mean the Supreme Court of the Yukon Territory.

"CPR Rules" shall have the meaning given in Section 10.3(b)(i).

"Dissent Rights" shall have the meaning given in the Amalgamation Agreement.

"Domain Names" shall have the meaning as given in Section 4.1(k).

"Effective Date of the Amalgamation" shall mean the date shown on the certificate of amalgamation issued by the Registrar of Corporations pursuant to section 188 of the YBCA.

"Effective Time of the Amalgamation" shall have the meaning as given in Section 2.2.

"Employee Benefit Plan" shall mean any retirement, pension, profit sharing, deferred compensation, stock bonus, savings, bonus, incentive, cafeteria, medical, dental, vision, hospitalization, life insurance, accidental death and dismemberment, medical expense reimbursement, dependent care assistance, tuition reimbursement, disability, sick pay, holiday, vacation, severance, change of control, stock purchase, stock option, restricted stock, phantom stock, stock appreciation rights, fringe benefit or other employee benefit plan, fund, policy, program, contract, arrangement or payroll practice of any kind, whether written or oral, qualified or nonqualified, funded or unfunded, or domestic or foreign, (a) that (i) is sponsored, maintained or contributed to by the Company or to which the Company is a party and that covers or benefits any current or former officer, employee, agent, director or independent contractor of the Company (or any dependent or beneficiary of any such individual), or (b) with respect to which the Company has (or could have) any obligation or liability.

"Estimated Net Working Capital Adjustment" shall have the meaning as given in Section 3.1(f)(i).

"Exchange Agent" shall have the meaning as given in Section 3.2(a).

"Final Closing Statement" shall have the meaning as given in Section 3.1(f).

"Final NWCA Decrease" shall have the meaning as given in Section 3.1(f)(vi).

"Final NWCA Increase" shall have the meaning as given in Section 3.1(f)(iv).

"Final NWCA Determination" shall have the meaning as given in Section 3.1(f)(iv).

"Final NWCA Payment" shall have the meaning as given in Section 3.1(f)(iv).

"Financial Statements" shall have the meaning as given in Section 4.1(h).

"Floridaco" shall mean eMobile Data, Inc. a profit corporation incorporated under the laws of Florida.

"GAAP" shall mean generally accepted accounting principles established by the Canadian Institute of Chartered Accountants.

"GST" means the Goods and Services Tax under the Excise Tax Act (Canada), as amended.

"Governmental Entity" shall mean an administrative agency, court, or commission or other governmental authority or instrumentality, whether domestic or foreign.

"Income Tax Act" means the Income Tax Act (Canada), as amended.

"Indemnification Escrow" shall have the meaning as given in the Recitals hereto.

"Indemnification Escrow Agent" shall have the meaning as given in Section 3.1(d).

"Indemnification Escrow Agreement" shall have the meaning as given in the Recitals hereto.

"Information Statement" shall mean the management information circular of the Company in connection with the Meeting, including the schedules thereto.

"IRS" shall mean the United States Internal Revenue Service.

"Itron" shall mean Itron, Inc., a Washington corporation.

"Itron Accountants" shall have the meaning as given in Section 3.1(f)(ii).

"Itron's Knowledge" shall mean the actual knowledge, after a reasonable inquiry, of: LeRoy Nosbaum, David Remington and Russell Fairbanks.

"Jones" shall mean Marc Jones, President and CEO of the Company.

"Laws" shall mean all statutes, regulations, statutory rules, orders, and terms and conditions of any grant of approval, permission, authority or license of any court, Governmental Entity, statutory body (including the TSX Venture Exchange) or self-regulatory authority, and the term "applicable" with respect to such Laws and in the context that refers to one or more Persons, means that such Laws apply to such Person or Persons or its or their business, undertaking, property or securities and have been created or otherwise provided for by a Governmental Entity having jurisdiction over the Person or Persons or its or their business, undertaking, property or securities.

"Leased Premises" shall mean all parcels of real estate subject to leases to which the Company is a party as a lessee as identified on Section 4.1(d) of the Company Disclosure Schedule.

"Losses" shall mean actual losses, damages, liabilities, claims, judgments, settlements, fines, costs, and expenses (including reasonable attorneys' fees) of any kind, minus: (i) any insurance proceeds received (less the fees and expenses incurred to obtain such proceeds) from a third party insurer (other than under insurance that is retrospectively rated or that is the economic equivalent of self-insurance); and (ii) any actual recovery from third parties (less the fees and expenses incurred to obtain such proceeds); provided, however, that "Losses" shall not include any indirect and/or consequential losses or damages of any kind incurred by Itron but shall include indirect and/or consequential losses or damages claimed by a third party and; provided,

further, that in no event shall "Losses" include the absence of or failure to realize any Tax benefit or failure to receive any Tax refund pending as of the date hereof.

"Material Adverse Effect" shall mean, with respect to any entity or group of entities, any adverse effect individually or in the aggregate on the Business Condition of such entity or group of entities.

"Material Contract" shall have the meaning as given in Section 4.1(d).

"Meeting" shall have the meaning as given in the Amalgamation Agreement.

"NASD" shall mean the National Association of Securities Dealers, Inc.

"Nasdaq" shall mean the Nasdaq National Market.

"Net Working Capital Adjustment" shall have the meaning as given in Section 3.1(f)(i).

"NRC" shall have the meaning as given in Section 7.2(o).

"NWCA Correction Amount" shall have the meaning as given in Section 3.1(f)(iii).

"NWCA Dispute Notice" shall have the meaning as given in Section 3.1(f)(ii).

"NWCA Overpayment" shall have the meaning as given in Section 3.1(f)(v).

"NWCA Underpayment" shall have the meaning as given in Section 3.1(f)(vii).

"Operative Documents" shall have the meaning as given in Section 4.1.

"Order" shall mean a decree, judgment, injunction, ruling or other order of a Governmental Entity having jurisdiction.

"Payment Certificate" shall mean a written claim for payment of Losses in reasonable detail and specifying the amount of such Losses.

"Person" shall mean an individual, corporation, partnership, joint venture, limited liability company, association, trust, unincorporated organization or other entity.

"Preliminary Closing Balance Sheet" shall have the meaning as given in Section 3.1(f)(i).

"Preliminary Closing Statement" shall have the meaning as given in Section 3.1(f)(i).

"Products" shall have the meaning as given in Section 4.1(k)(ii).

"SEC" shall mean the United States Securities and Exchange Commission.

"Securities Laws" shall mean the legislation in each province of Canada in which the Company is a "reporting issuer" or its equivalent that governs the distribution and trading of

securities and the rules, regulations and published policies made thereunder, and the rules, by-laws and published policies of the TSX Venture Exchange, as now in effect and as they may be amended from time to time prior to the Effective Time of the Amalgamation.

"Securities Regulatory Authorities" shall mean the securities regulatory authorities responsible for the administration of the Securities Laws.

"Shareholders' Accountants" shall have the meaning as given in Section 3.1(f)(ii).

"Shareholders' Representatives" shall have the meaning as given in Section 6.1(c).

"Subco" shall mean eMobile Data International Inc., a corporation incorporated under the laws of British Columbia.

"Subsidiaries" shall mean Subco and Floridaco.

"Superior Proposal" shall have the meaning as given in Section 9.1.

"Support Agreement" shall have the meaning as given in Section 7.2(a).

"Surviving Corporation" shall have the meaning as given in Section 2.1.

"Surviving Corporation Preference Shares" shall mean the non-voting redeemable preference shares in the capital of the Surviving Corporation with the special rights and restrictions as set forth in the Amalgamation Agreement.

"Takeover Proposal" shall have the meaning as given in Section 9.1.

"Tax" and "Taxes" shall mean (a) domestic or foreign federal, state or local taxes, charges, fees, levies, imposts, duties and governmental fees or other like assessments or charges of any kind whatsoever (including, without limitation, any income, net income, gross income, receipts, windfall profit, severance, property, production, sales, use, business and occupation, license, excise, registration, franchise, employment, payroll, withholding, alternative or add-on minimum, intangibles, ad valorem, transfer, gains, stamp, estimated, transaction, title, capital, paid-up capital, profits, occupation, premium, value-added, recording, real property, personal property, inventory and merchandise, business privilege, federal highway use, commercial rent or environmental tax), (b) interest, penalties, fines, additions to tax or additional amounts imposed by any taxing authority in connection with (i) any item described in clause (a) or (ii) the failure to comply with any requirement imposed with respect to any Tax Return, and (c) liability in respect of any items described in clause (a) or (b) payable by reason of contract assumption, transferee liability, operation of law, or otherwise.

"Tax Returns" shall mean any return, report or statement required to be filed with respect to any Tax (including any attachments thereto and any amendment thereof), including, without limitation, any information return, claim for refund, amended return or declaration of estimated Tax.

"Technology" shall have the meaning as given in Section 4.1(k).

"Technology-Related Assets" shall have the meaning as given in Section 4.1(k).

"Third Party Claim" shall have the meaning as given in Section 10.4(a).

"Third Party Licenses" shall have the meaning as given in Section 4.1(k).

"Third Party Technologies" shall have the meaning as given in Section 4.1(k).

"TSX Venture Exchange" shall mean the Toronto Stock Exchange Venture Exchange.

"U.S. Securities Act" shall mean the United States Securities Act of 1933, as amended.

"Voting Stock" shall mean any class or classes of share capital pursuant to which the holders thereof have the general voting power under ordinary circumstances to elect a majority of the Board of Directors, managers or trustees of any Person (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency).

"YBCA" shall have the meaning as given in the Recitals hereto.

ARTICLE II
THE AMALGAMATION

2.1 THE AMALGAMATION

Upon the terms and subject to the conditions hereof and in accordance with the YBCA, the Combination Company shall be amalgamated with and into the Company at the Effective Time of the Amalgamation. Following the Amalgamation, the Combination Company and the Company shall continue as the surviving corporation (the "Surviving Corporation") and the Surviving Corporation shall succeed to and assume all the rights and obligations of the Combination Company and the Company in accordance with the YBCA.

2.2 EFFECTIVE TIME AND CLOSING

As soon as practicable following the satisfaction or, to the extent permitted hereunder, waiver of the conditions set forth in Article VII, the Surviving Corporation shall file the Articles of Amalgamation and such other documents as required by the YBCA with respect to the Amalgamation (the "Amalgamation Filings") and other appropriate documents executed in accordance with the relevant provisions of the YBCA. The Amalgamation shall become effective at such time as the Amalgamation Filings are duly filed with the Registrar of Corporations under the YBCA, or at such later time as Itron and the Company shall agree should be specified in the filings (the time the Amalgamation becomes effective being the "Effective Time of the Amalgamation"). If the Registrar of Corporations under the YBCA requires any changes in the Amalgamation Filings as a condition to filing or to issuing its certificate to the effect that the Amalgamation is effective, Itron, the Combination Company and the Company will execute any necessary revisions incorporating such changes, provided such changes are not inconsistent with and do not result in any material change in the terms of this Agreement. The closing of the Amalgamation (the "Closing") shall take place at the offices of Fasken Martineau

DuMoulin LLP, Suite 2100, 1075 West Georgia Street, Vancouver, BC V6E 3G2, on the date as agreed by Itron and the Company (the "Closing Date").

2.3 EFFECTS OF THE AMALGAMATION

The Amalgamation shall have the effects set forth herein and in the Amalgamation Agreement. If at any time after the Effective Time of the Amalgamation, the Surviving Corporation shall consider or be advised that any further assignments or assurances in law or otherwise are necessary or desirable to vest, perfect or confirm, of record or otherwise, in the Surviving Corporation, all rights, title and interests in all real estate and other property and all privileges, powers and franchises of the Company and the Combination Company, the Surviving Corporation and its proper officers and directors, in the name and on behalf of the Company and the Combination Company, shall execute and deliver all such proper deeds, assignments and assurances in law and do all things necessary and proper to vest, perfect or confirm title to such property or rights in the Surviving Corporation and otherwise to carry out the purpose of this Agreement, and the proper officers and directors of the Surviving Corporation are fully authorized in the name of the Company and the Combination Company or otherwise to take any and all such action.

2.4 ARTICLES OF AMALGAMATION AND BYLAWS

(a) The Articles of Amalgamation of the Surviving Corporation shall set forth the rights, privileges, restrictions and conditions attaching to each class of shares of the Surviving Corporation as set forth in Schedule 1 to the Amalgamation Agreement attached hereto as Exhibit C. Thereafter, the Articles of Amalgamation of the Surviving Corporation may be changed or amended as provided therein or by applicable law.

(b) The Bylaws of the Combination Company, as in effect immediately prior to the Effective Time of the Amalgamation as set forth in Exhibit D hereto, shall be the Bylaws of the Surviving Corporation until thereafter changed or amended as provided therein or by applicable law.

2.5 DIRECTORS AND OFFICERS

The directors and officers of the Combination Company shall, from and after the Effective Time of the Amalgamation, be the directors and officers of the Surviving Corporation and shall serve until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Surviving Corporation's Articles of Amalgamation and Bylaws.

ARTICLE III
EFFECT OF THE AMALGAMATION ON THE SHARE CAPITAL OF THE CONSTITUENT CORPORATIONS; EXCHANGE OF CERTIFICATES

3.1 EFFECT ON CAPITAL

As of the Effective Time of the Amalgamation, by virtue of the Amalgamation and without any action on the part of the Company, the Combination Company, Itron or the holders of any of the following securities:

(a) CONVERSION OF COMBINATION COMPANY SHARES

All shares of the Combination Company issued and outstanding immediately prior to the Effective Time of the Amalgamation shall, in the aggregate, be converted automatically into one common share of the Surviving Corporation as of the Effective Time of the Amalgamation.

(b) CANCELLATION OF COMPANY TREASURY SHARES

All shares of the Company held in the treasury of the Company and each share of the Company owned by Itron immediately prior to the Effective Time of the Amalgamation, if any, shall be cancelled and extinguished as of the Effective Time of the Amalgamation, without any conversion thereof and no amount or other consideration shall be delivered or deliverable in exchange therefor.

(c) CONVERSION OF COMPANY COMMON SHARES

(i) Each of the Company Common Shares issued and outstanding immediately prior to the Effective Time of the Amalgamation, other than those Company Common Shares that are cancelled as provided in Section 3.1(b) or for which Dissent Rights are perfected, upon the surrender of the certificates formerly representing such Company Common Shares pursuant to Section 3.2, shall be converted automatically into one Surviving Corporation Preference Share at the Effective Time.

(ii) Each Surviving Corporation Preference Share will on the Effective Date of the Amalgamation be redeemed for:

(A) an amount of cash equal to Six Million Two Hundred Thousand American Dollars (US$6,200,000), less the aggregate amount to be paid to any Company Shareholders who perfect their Dissent Rights, provided, however, that if such amount has not been ascertained by the Closing Date, then less the aggregate amount otherwise payable to Company Shareholders who have delivered written notice of their intent to demand payment to the Company and have not voted in favor of the Amalgamation pursuant to their Dissent Rights, divided by

(B) the Common Share Number (defined below), rounded to ten decimal points (the "Amalgamation Consideration"), which Amalgamation Consideration shall be subject to adjustment as set forth in Section 3.1(c) (iii) below. The "Common Share Number"

shall mean the total number of Company Common Shares outstanding immediately prior to the Effective Time of the Amalgamation.

(iii) Pursuant to Section 3.2(b), following adjustments for the Adjustment Escrow, as provided in Section 3.1(f), and, as to Jones, following further adjustment for the Indemnification Escrow as provided in Section 3.1(d), the Amalgamation Consideration shall be payable at Closing by wire transfer of immediately available funds to the Exchange Agent for distribution to the Company Shareholders as set forth in Section 3.2.

(iv) All such Company Common Shares shall automatically be cancelled and retired and shall cease to exist, and each certificate previously evidencing any such shares shall thereafter represent only the right to receive the Amalgamation Consideration. At the Effective Time of the Amalgamation, the holders of any Company Common Shares outstanding immediately prior to the Effective Time of the Amalgamation shall cease to have any rights with respect to such Company Common Shares, except the right to receive the Amalgamation Consideration and as otherwise provided herein or pursuant to any Dissent Rights.

(d) DEPOSIT OF INDEMNIFICATION ESCROWED FUNDS

Notwithstanding the foregoing and the provisions of this Article III, and subject to the effectiveness of the Amalgamation, Five Hundred Thousand American Dollars (US$500,000) of the Amalgamation Consideration shall be deposited in the Indemnification Escrow with Pacific Corporate Trust Company (the "Indemnification Escrow Agent"), to be held and administered in accordance with the Indemnification Escrow Agreement, such Indemnification Escrow to be withheld and deducted from the Amalgamation Consideration otherwise issuable to Jones at the Effective Time of the Amalgamation.

(e) DEPOSIT OF ADJUSTMENT ESCROWED FUNDS

Notwithstanding the foregoing and the provisions of this Article III, and subject to the effectiveness of the Amalgamation, an amount equal to the Adjustment Escrow Amount (as defined in Section 3.1(f) below) shall be deposited in the Adjustment Escrow with Pacific Corporate Trust Company (the "Adjustment Escrow Agent"), to be held and administered in accordance with the Adjustment Escrow Agreement, such Adjustment Escrow to be withheld and deducted, pro rata, from the Amalgamation Consideration otherwise issuable to each Company Shareholder at the Effective Time of the Amalgamation.

(f) NET WORKING CAPITAL ADJUSTMENT

(i) At least two (2) Business Days prior to the estimated Effective Time of the Amalgamation, the Company shall prepare in good faith and deliver to Itron a preliminary projected balance sheet as of the anticipated Effective Time of the Amalgamation (the "Preliminary Closing Balance Sheet"). The Preliminary Closing Balance Sheet shall be prepared according to GAAP consistent with the Company's past practices and shall be accompanied by a projected statement of income in accordance with GAAP for the period ended at the anticipated Effective Time of the Amalgamation (the "Preliminary Closing Statement"). In addition, the Company shall provide a schedule reasonably detailing the Company's estimate as of the projected Effective Time of the Amalgamation of the net working capital adjustment

(the "Estimated Net Working Capital Adjustment") prepared in accordance with the provisions set forth on Schedule 3.1(f) comparing the net working capital on the Company's balance sheet as of March 31, 2002 with the anticipated balance sheet at the Effective Time of the Amalgamation based on the Preliminary Closing Balance Sheet (such form of comparison referred to in this Section 3.1 as a "Net Working Capital Adjustment"). The Company shall consult with Itron during its preparation of the Preliminary Closing Balance Sheet, the Preliminary Closing Statement and the calculation of the Estimated Net Working Capital Adjustment. Itron shall withhold from the Amalgamation Consideration otherwise payable to the Company Shareholders the amount of Four Hundred Fifty Thousand American Dollars (US $450,000) (the "Adjustment Escrow Amount"), and Itron shall deposit such amount to the Adjustment Escrow provided for in Section 3.1(e) above.

(ii) As promptly as practicable after the Effective Time of the Amalgamation, but in no event more than forty-five (45) days after the Effective Time of the Amalgamation, Itron shall prepare a balance sheet and income statement of the Company as of the Effective Time of the Amalgamation and a schedule calculating the Net Working Capital Adjustment prepared in accordance with the provisions set forth on Schedule 3.1(f) comparing the net working capital on the Company's balance sheet as of March 31, 2002 with the balance sheet at the Effective Time of the Amalgamation (the "Final Closing Statement") and may engage Deloitte & Touche, LLP, or such other nationally recognized accounting firm (the "Itron Accountants"), to conduct an audit of the Final Closing Statement at Itron's sole cost. The Final Closing Statement shall be prepared according to GAAP, consistent with the Company's past practices through the Effective Time of the Amalgamation, which shall be applied to calculate the final Net Working Capital Adjustment and shall be reflected in one or more footnotes and supplemental schedules to such statements. A separate schedule attached to the Final Closing Statement shall contain the calculation of the final Net Working Capital Adjustment. The Final Closing Statement shall be promptly delivered to the Shareholders' Representatives (as defined below), and Itron and Shareholders' Representatives shall thereafter attempt to reach agreement on the Final Closing Statement. If the Shareholders' Representatives and Itron are unable to agree on the Final Closing Statement, then the Shareholders' Representatives shall present any objections or comments in writing to Itron no later than twenty (20) days after their receipt of the Final Closing Statement, specifying in reasonable detail any objections thereto (the "NWCA Dispute Notice"). During the foregoing period, and at their sole discretion, the Shareholders' Representatives may cause a nationally recognized accounting firm designated at their sole discretion (the "Shareholders' Accountants") to review the written calculation of the Net Working Capital Adjustment and the Final Closing Statement. The Shareholders' Representatives shall have access to Itron's work papers used in the preparation of the Final Closing Statement. If Itron and the Shareholders' Representatives are unable to resolve informally matters raised by such comments or objections, the matter shall be resolved by the Accounting Arbitrator(s) (as defined below) in accordance with the process set forth in Section 3.1(f)(iii).

(iii) In the event that the Shareholders' Representatives provide Itron with a timely NWCA Dispute Notice, then the Shareholders' Representatives and Itron shall work together in good faith to reach an agreement on any adjustments to the Final Closing Statement and the calculation of the Net Working Capital Adjustment. If within twenty (20) Business Days after Itron's receipt of the NWCA Dispute Notice, Itron and the Shareholders' Representatives

have not reached an agreement, the parties shall engage the Accounting Arbitrator to determine any adjustments to the Final Closing Statement and the calculation of the Net Working Capital Adjustment. If the parties are unable to agree upon one Accounting Arbitrator, each shall appoint an Accounting Arbitrator and these appointees shall appoint a third Accounting Arbitrator (collectively, the "Accounting Arbitrators"), in which case the determination of the amount of any adjustments to the Final Closing Statement and the Net Working Capital Adjustment shall be made by a majority decision of the Accounting Arbitrators. The decision of the Accounting Arbitrator(s) shall be conclusive and binding on all parties. The Accounting Arbitrator(s) shall be directed to make a determination of any adjustment to the Final Closing Statement and the calculation of the Net Working Capital Adjustment within forty-five (45) days of engagement. Payment by Itron or the Shareholders, as applicable, of the difference between the amount paid in connection with the Net Working Capital Adjustment, if any, and the amount of the required payment as determined by the Accounting Arbitrator(s) (the "NWCA Correction Amount") shall be due within ten (10) days after the resolution of any such dispute. Itron and the Shareholders' Representatives (on behalf of the Company Shareholders) shall pay the costs and expenses of their own accountants and attorneys and shall bear equally the expense of the Accounting Arbitrator(s) (such costs and expenses of the Shareholders' Representatives shall be paid from the Amalgamation Consideration held in the Adjustment Escrow); provided, however, that, (X) if the Accounting Arbitrator(s) determine that the NWCA Correction Amount requires a payment by Itron to the Company Shareholders of an additional amount that is at least ten percent (10%) of the amount that was initially paid in connection with the Net Working Capital Adjustment, then Itron shall pay all fees and expenses with respect to the Itron Accountants, the Shareholders' Accountants and the Accounting Arbitrator(s) as well as all reasonable attorneys' fees of the parties, and (Y) if the Accounting Arbitrator(s) determine that the NWCA Correction Amount requires a payment by the Company Shareholders to Itron that is at least ten percent (10%) of the amount that was initially paid in connection with the Net Working Capital Adjustment, then the Company Shareholders shall pay (from the Amalgamation Consideration held in the Adjustment Escrow) all fees and expenses with respect to the Itron Accountants, the Shareholders' Accountants and the Accounting Arbitrator(s) as well as all reasonable attorneys' fees of the parties.

(iv) To the extent that the Net Working Capital Adjustment as finally determined in accordance with the provisions set forth in Section 3.1(f)(ii) above (a "Final NWCA Determination") is an increase of more than CDN$1,500,000 over the net working capital of the Company as of March 31, 2002 (the excess being a "Final NWCA Increase"), then, within five (5) Business Days after such Final NWCA Determination, Itron shall deposit with the Adjustment Escrow Agent an amount of cash equal to such Final NWCA Increase, if any, (a "Final NWCA Payment"). Within two (2) days after a Final NWCA Payment is deposited in the Adjustment Escrow pursuant to this Section 3.1(f)(iv), such Final NWCA Payment plus the Adjustment Escrow Amount shall be released from the Adjustment Escrow to the former Company Shareholders in proportion to their receipt of the Amalgamation Consideration in accordance with the Adjustment Escrow Agreement.

(v) To the extent that a Final NWCA Determination results in a Net Working Capital Adjustment that is a decrease of less than or equal to One Million Five Hundred Thousand Canadian Dollars (CDN$1,500,000), then, within five (5) Business Days following a Final NWCA Determination, the Adjustment Escrow Amount shall be released from the

Adjustment Escrow to the former Company Shareholders in proportion to their receipt of the Amalgamation Consideration in accordance with the Adjustment Escrow Agreement.

(vi) To the extent that a Final NWCA Determination results in a Net Working Capital Adjustment that is a decrease of more than One Million Five Hundred Canadian Dollars (CDN$1,500,000) (such difference between the Final NWCA Determination and CDN$1,500,000 being the "Final NWCA Decrease"), then within five (5) business days following such Final NWCA Determination, Itron may, pursuant to the Adjustment Escrow Agreement, instruct the Adjustment Escrow Agent to transfer an amount of cash equal to such Final NWCA Decrease to Itron in American funds based upon the Canadian Dollar to American Dollar noon spot exchange rate in effect at the Bank of Canada on the business day before such transfer. To the extent that any funds remain in the Adjustment Escrow following such transfer to Itron, those remaining funds shall be promptly released to the former Company Shareholders in proportion to their receipt of the Amalgamation Consideration in accordance with the Adjustment Escrow Agreement.

(vii) The adjustments pursuant to the Net Working Capital Adjustments in this Section 3.1(f) shall be treated as an increase or a decrease in the Amalgamation Consideration.

3.2 EXCHANGE OF CERTIFICATES

(a) Exchange Agent

Prior to the Effective Time of the Amalgamation, Itron shall engage Pacific Corporate Trust Company to act as exchange agent (the "Exchange Agent") for the issuance of the Amalgamation Consideration upon surrender of the Certificates.

(b) PAYMENT OF AMALGAMATION CONSIDERATION

As of the Effective Time of the Amalgamation, Itron shall have delivered to the Exchange Agent the Amalgamation Consideration to be paid upon the conversion of the Company Common Shares pursuant to Section 3.1(c). At the Effective Time of the Amalgamation, Itron shall cause the Exchange Agent, pursuant to irrevocable instructions delivered to the Exchange Agent prior thereto, to deliver the Amalgamation Consideration contemplated to be paid pursuant to Section 3.1(d) out of the amounts earlier delivered by Itron to the Exchange Agent. The Exchange Agent shall not use such funds for any purpose other than as set forth in this Section 3.2(b).

(c) EXCHANGE PROCEDURE FOLLOWING THE EFFECTIVE TIME OF THE AMALGAMATION

As soon as practicable after the Effective Time of the Amalgamation, the Exchange Agent shall mail to each holder of record of a certificate or certificates that immediately prior to the Effective Time of the Amalgamation represented the issued and outstanding Company Common Shares (the "Certificates"), (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for cash in payment of the Amalgamation Consideration. Upon surrender of a Certificate for cancellation to the Exchange Agent, together with such letter of

transmittal, duly executed, the holder of such Certificate shall be entitled to receive in exchange therefor the applicable amount of the Amalgamation Consideration consisting of cash into which the Company Common Shares theretofore represented by such Certificate shall have been converted pursuant to Section 3.1(c), and the Certificate so surrendered shall forthwith be cancelled. Until surrendered as contemplated by this Section 3.2(c), each Certificate shall be deemed at any time after the Effective Time of the Amalgamation, other than Certificates that are cancelled as provided in Section 3.1(b), to represent only the right to receive, upon surrender of such Certificate in accordance with this Section 3.2(c), the applicable amount of the Amalgamation Consideration.

(d) PAYMENTS WITH RESPECT TO UNEXCHANGED COMPANY COMMON SHARES

No cash payment shall be paid to the holder of any unsurrendered Certificate pursuant to Section 3.1 until the holder of record of such Certificate shall surrender such Certificate in accordance with Section 3.2(c).

(e) NO FURTHER OWNERSHIP RIGHTS IN COMPANY COMMON SHARES

All cash paid as the Amalgamation Consideration upon the surrender of Certificates shall be deemed to have been paid in full satisfaction of all rights pertaining to the Company Common Shares theretofore represented by such Certificates and there shall be no further registration of transfers on the stock transfer books of the Surviving Corporation of the Company Common Shares represented by such Certificates that were outstanding immediately prior to the Effective Time of the Amalgamation. If, after the Effective Time of the Amalgamation, Certificates are presented to the Surviving Corporation for any reason, they shall be cancelled and exchanged as provided in this Article III, except as otherwise provided by applicable Laws.

(f) LOST, STOLEN OR DESTROYED CERTIFICATES

In the event any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit setting forth that fact by the Person claiming such loss, theft or destruction and, the granting of a reasonable indemnity against any claim that may be made against Itron, the Surviving Corporation or the Exchange Agent with respect to such Certificate, Itron shall cause the Exchange Agent to issue to such Person the applicable amount of the Amalgamation Consideration with respect to such lost, stolen or destroyed Certificate to which the holder thereof may be entitled pursuant to this Article III.

3.3 STOCK TRANSFER BOOKS

At the Effective Time of the Amalgamation, the transfer books of the Company with respect to all shares of share capital or other securities of the Company shall be closed and no further registration of transfers of such shares of share capital or other securities shall thereafter be made on the records of the Company.

3.4 CERTAIN ADJUSTMENTS

If between the date hereof and the Effective Time of the Amalgamation, the outstanding shares of the Company Common Shares shall be changed into a different number of shares by

reason of any reclassification, recapitalization, split, combination or exchange of shares, or any dividend payable in stock or other securities shall be declared thereon with a record date within such period, the Amalgamation Consideration shall be adjusted accordingly to provide the same economic effect as contemplated by this Agreement prior to such reclassification, recapitalization, split, combination, exchange or dividend.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

4.1 REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Except as is otherwise set forth with appropriate Section references in the Company Disclosure Schedule, and in order to induce Itron and Combination Company to enter into and perform this Agreement and the other agreements and certificates that are required to be executed pursuant to this Agreement (collectively, the "Operative Documents"), the Company represents and warrants to Itron and the Combination Company as of the date hereof and as of the Closing:

(a) ORGANIZATION; STANDING AND POWER; SUBSIDIARIES; CHARTER DOCUMENTS

The Company does not have any subsidiaries or own of record or beneficially any share capital of or equity interest or investment in any Person other than the Company's wholly owned subsidiary eMobile Data International Inc., a corporation incorporated under the laws of British Columbia ("Subco"), and Subco's wholly-owned subsidiary eMobile Data, Inc., a profit corporation incorporated under the laws of Florida ("Floridaco"). Subco and Floridaco are referred to herein collectively as the "Subsidiaries". The Company is the sole registered shareholder of Subco and holds all of the issued and outstanding shares of Subco free and clear of any other beneficial interests, liens or encumbrances. Subco is the sole registered shareholder of Floridaco and holds all of the issued and outstanding shares of Floridaco free and clear of any other beneficial interests, liens or encumbrances. In this Section 4.1, all representations and warranties of the Company with respect to itself shall also be deemed to be made with respect to each of the Subsidiaries, mutatis mutandis.

The Company is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and has the requisite corporate power and authority to own, operate and lease its properties and assets, to carry on its business as now being conducted and as currently proposed to be conducted, and to enter into and perform its obligations under the Operative Documents to which the Company is a party, and to consummate the transactions contemplated hereby and thereby. The Company is duly qualified and licensed to do business and is in good standing in each jurisdiction in which the nature of the business conducted by the Company or the ownership, occupation or leasing of its properties makes such qualification or licensing necessary, other than in such jurisdictions where the failure to be so qualified to do business or in good standing (individually, or in the aggregate) would not have a Material Adverse Effect on the Company. The Company has furnished to Itron true and complete copies of (a) the Articles of Incorporation and Bylaws of the Company, respectively, as currently in effect, including all amendments thereto and (b) the minute books of the Company.

(b) CAPITAL STRUCTURE

The authorized share capital of the Company consists of an unlimited number of common shares, no par value ("Company Common Shares"). As of the date hereof, 21,417,720 Company Common Shares are issued and outstanding. In addition, as the date hereof, the Company has issued: (i) an aggregate of 2,698,050 options to purchase Company Common Shares out of a total of 4,283,544 Company Common Shares that have been reserved for issuance pursuant to the Company's stock option plan (the "Company Stock Option Plan"); and (ii) an aggregate of 1,550,000 warrants to purchase an aggregate of 775,000 Company Common Shares.

Except as set forth above, no shares of share capital or other equity or voting securities of the Company are reserved for issuance or outstanding. All outstanding shares of share capital of the Company are, and immediately prior to the Closing will be (and immediately prior to the Closing all shares issuable upon the exercise of outstanding stock options or warrants will be), duly authorized, validly issued, fully paid and non-assessable and not subject to pre-emptive rights. All of such issued and outstanding shares of share capital of the Company were offered and sold in compliance with all applicable federal, provincial and territorial securities laws, rules and regulations. Except as set forth in Section 4.1(b) of the Company Disclosure Schedule, there are no outstanding or authorized securities, options, warrants, calls, rights, commitments, pre-emptive rights, agreements, arrangements or undertakings of any kind to which the Company is a party, or by which it is bound, obligating the Company to issue, deliver or sell, or cause to be issued, delivered or sold, any shares of share capital or other equity or voting securities of, or other ownership interests in, the Company or obligating the Company to issue, grant, extend or enter into any such security, option, warrant, call, right, commitment, agreement, arrangement or undertaking. To the Company's Knowledge, no Person other than the Company Shareholders holds any interest in the Company Common Shares. Except as set forth in Section 4.1(b) of the Company Disclosure Schedule, all of which, except for the Company Warrants, shall be terminated without cost to the Company by the Effective Time of the Amalgamation, there are not as of the date hereof and there will not be at the Effective Time of the Amalgamation any registration rights agreements, shareholder agreements, rights of first refusal, co-sale agreements, voting trusts or other agreements or understandings to which the Company or any director is a party or by which the Company is bound relating to the voting of any shares of the share capital of the Company.

(c) AUTHORITY; NON-CONTRAVENTION

(i) The Board of Directors of the Company has approved the Operative Documents and determined the Operative Documents to be in the best interests of the Company Shareholders pursuant to the terms hereof and thereof. The Company has the requisite corporate power and authority to enter into the Operative Documents and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance of the Operative Documents by the Company and the consummation by the Company of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of the Company. The Operative Documents have been duly and validly executed and delivered by the Company and, assuming due authorization and delivery by Itron and the Combination Company, constitute valid and binding obligations of the Company, enforceable

against the Company in accordance with their terms, except that (x) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws or judicial decisions now or hereafter in effect relating to creditors' rights generally and the application of general principles of equity, (y) the remedy of specific performance and injunctive relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought, and (z) the enforceability of any indemnification provision contained herein may be limited by applicable federal, provincial or territorial securities laws.

(ii) Except as set forth on Section 4.1(c) of the Company Disclosure Schedule, the execution, delivery and performance of this Agreement and the Operative Documents by the Company do not, and the consummation of the transactions contemplated hereby and thereby and compliance with the provisions hereof and thereof will not (a) constitute a violation of (with or without the giving of notice or lapse of time, or both) any provision of Law or any judgment, decree, order regulation or rule of any court of other governmental authority applicable to the Company, (b) result in a default (with or without the giving of notice or lapse of time, or both) under, or acceleration or termination of, or the creation in any party of the right to accelerate, terminate, modify or cancel, any agreement, lease, note or other restriction, encumbrance, obligation or liability to which the Company is a party or by which it is bound or to which any assets of the Company are subject (individually, a "Contractual Document" and collectively, the "Contractual Documents"), (c) result in the creation of any encumbrance upon any material assets of the Company, (d) conflict with or result in a breach of or constitute a default under any provision of the Articles of Incorporation or Bylaws of the Company, or (e) invalidate or adversely affect any permit license or authorization currently material to the conduct of the business of the Company. No Consent of any Governmental Entity or other Person, is required by or with respect to the Company in connection with the execution and delivery of this Agreement by the Company or the consummation by the Company of the transactions contemplated hereby, except for (i) the filing of the Amalgamation Filings with and approval thereof by the Registrar of Corporations under the YBCA and the filing of the appropriate documents with the relevant authorities of other states and provinces in which the Company is qualified to do business, if any, and (ii) applicable requirements, if any, of the consents, approvals, authorizations or permits described in Section 4.1(c) of the Company Disclosure Schedule.

(d) MATERIAL CONTRACTS

Section 4.1(d) of the Company Disclosure Schedule lists all currently effective written or oral contracts, agreements, leases, instruments or legally binding contractual commitments to which the Company is a party that meet any of the following criteria (each, a "Material Contract"):

(i) any contract with a customer of the Company or with any entity that purchases goods or services from the Company for consideration paid to the Company of CDN$30,000 or more in any fiscal year;

(ii) any contract for capital expenditures or the acquisition or construction of fixed assets in excess of CDN$30,000 in any fiscal year;

(iii) any contract for the purchase or lease of goods or services (including without limitation, equipment, materials, software, hardware, supplies, merchandise, parts or other property, assets or services), requiring aggregate future payments in excess of CDN$30,000 in any fiscal year;

(iv) any contract relating to the borrowing of money or guaranty of indebtedness in excess of CDN$30,000 in any fiscal year;

(v) any collective bargaining or other arrangement with any labour union;

(vi) any contract granting a first refusal, first offer or similar preferential right to purchase or acquire any of the Company's share capital or assets;

(vii) any contract limiting, restricting or prohibiting the Company from conducting business anywhere in Canada, the United States or elsewhere in the world or any contract limiting the freedom of the Company to engage in any line of business or to compete in any respects with any other Person;

(viii) any joint venture or partnership contract;

(ix) contracts requiring future payments of CDN$30,000 or more in any fiscal year;

(x) any employment contract, severance agreement or other similar binding agreement or policy with any officer or director of the Company; and

(xi) any contract (other than 'shrink-wrap,' 'click wrap' or similar contracts for widely distributed commercially available software) for or with exclusive arrangements for product distribution, development, marketing, branding or services, or software licenses. The Company has provided to Itron a true and complete copy of each Material Contract (and a written description of each oral Material Contract), including all amendments or other modifications thereto. Except as set forth on Section 4.1(d) of the Company Disclosure Schedule, to the Company's Knowledge, each Material Contract is a valid and legally binding obligation of the Company, enforceable against the Company in accordance with its terms, subject only to bankruptcy, reorganization, receivership or other laws affecting creditors' rights generally and rules of law governing specific performance, injunctive relief and other equitable remedies. Except as set forth on Section 4.1(d) of the Company Disclosure Schedule, the Company has performed all obligations required to be performed by it under the Material Contracts and the Company is not in breach or default thereunder, except for breaches of and defaults under the Material Contracts that would not have a Material Adverse Effect on the Company. Neither the Company nor, to the Company's Knowledge, any other party to a Material Contract is in default thereunder, nor, to the Company's Knowledge, is there any event that with notice or lapse of time, or both, would constitute a default by the Company or, to the Company's Knowledge, any other party thereunder, except for such default under the Material Contracts that would not have a Material Adverse Effect on the Company. In addition, except as set forth on Section 4.1(d) of the Company Disclosure Schedule or as would otherwise not have a Material Adverse Effect on the Company, the Company has no:

(xii) contracts with directors, officers, shareholders, employees, agents, consultants, advisors, salespeople, sales representatives, distributors or dealers that cannot be cancelled by the Company within 30 days' notice without liability, penalty or premium, any agreement or arrangement providing for the payment of any bonus or commission based on sales or earnings, or any compensation agreement or arrangement affecting or relating to former employees of the Company;

(xiii) notice, written or otherwise, that any party to a contract listed in Section 4.1(d) of the Company Disclosure Schedule intends to cancel, terminate or refuse to renew such contract (if such contract is renewable);

(xiv) material dispute with any of its suppliers, customers, distributors, OEM resellers, licensors or licensees; or

(xv) agreements or commitments to provide indemnification.

(e) ABSENCE OF CERTAIN CHANGES OR EVENTS

Except as disclosed in Section 4.1(e) of the Company Disclosure Schedule, since March 31, 2002, the Company has conducted its business in the ordinary course consistent with past practice, and there has not been:

(i) any change, event or condition with respect to the Company that has had a Material Adverse Effect on the Company;

(ii) any issuance of any share capital, other securities or options or other rights to acquire share capital or other securities, or any declaration, setting aside or payment of any dividend (whether in cash, stock or property) with respect to any of the Company's share capital;

(iii) (A) any granting by the Company to any executive officer of the Company of any increase in compensation, (B) any granting by the Company to any such executive officer of any increase in severance or termination pay, or (C) any entry by the Company into any employment, severance or termination agreement with any such executive officer, except, in each case in this subsection (iii), such grants or entries that were in the ordinary course of business and consistent with past practice and would not have a Material Adverse Effect on the Company;

(iv) any amendment, waiver or forgiveness of any material term of any outstanding equity or debt security of the Company;

(v) any repurchase, redemption or other acquisition by the Company of any outstanding shares of share capital or other equity securities of, or other ownership interests in, the Company, except as contemplated by any Employee Benefit Plans (as hereinafter defined) of the Company;

(vi) any material damage, destruction or other property loss, whether or not covered by insurance; or

(vii) any change in accounting methods, principles or practices by the Company, except insofar as may have been required by a change in GAAP.

Furthermore, except as disclosed in Section 4.1(e) of the Company Disclosure Schedule, since March 31, 2002, neither the Company nor any of its officers, directors or agents in their representative capacities on behalf of the Company have:

(viii) taken any action or entered into or agreed to enter into any transaction, agreement or commitment other than in the ordinary course of business that would have a Material Adverse Effect on the Company;

(ix) paid, discharged or satisfied any claims, liabilities or obligations (absolute, accrued or contingent) of material value or prepaid any material obligation having a fixed maturity of more than ninety (90) days from the date such obligation was issued or incurred;

(x) permitted or allowed any of its material property or assets(real, personal or mixed, tangible or intangible) to be subjected to any mortgage, pledge, lien, security interest, encumbrance, institutional control, restriction or charge, except (A) conditional sales or similar security interests granted in connection with the purchase of equipment or supplies in the ordinary course of business, (B) assessments for current taxes not yet due and payable, (C) landlord's liens for rental payments not yet due and payable, and (D) mechanics', materialmens', carriers' and other similar statutory liens securing indebtedness that is in the aggregate less than CDN$15,000 and was incurred in the ordinary course of business or is not yet due and payable;

(xi) written down the value of any inventory (including write-downs by reason of shrinkage or markdown) or written off as uncollectible any notes or accounts receivable, except for write-downs and write-offs that are in the aggregate less than CDN$15,000 incurred in the ordinary course of business or consistent with past practice;

(xii) sold, transferred or otherwise disposed of any of its properties or assets (real, personal or mixed, tangible or intangible) with an aggregate net book value in excess of CDN$7,500 except the sale of inventory in the ordinary course of business or consistent with past practice;

(xiii) disposed of or permitted to lapse any rights to the use of any trademark, trade name, patent or copyright, or disposed of or disclosed to any Person other than representatives of Itron any trade secret, formula, process or know-how not theretofore a matter of public knowledge;

(xiv) made any single capital expenditure or commitment in excess of CDN$15,000 for additions to property, plant, equipment or intangible capital assets or made aggregate capital expenditures in excess of CDN$37,500 for additions to property, plant, equipment or intangible capital assets;

(xv) received oral or written notice that there has been, will be or may be a loss of, or contract cancellation by, any current customer, supplier or licenser of the Company, which

loss or cancellation would result in lost annual revenues to the Company of more than CDN$30,000, or formed the basis for any belief that there may be such a loss or cancellation;

(xvi) entered into or agreed to enter into, or otherwise suffered to be outstanding, any power of attorney of the Company or any obligations or liabilities (absolute, accrued or contingent) of the Company, as guarantor, surety, co-signer, endorser, co-maker, indemnitor or otherwise, in respect of the obligation of any other Person;

(xvii) received written notice of any other event or facts that could result in a Material Adverse Effect on the Business Condition of the Company; or

(xviii) agreed, whether in writing or otherwise, to take any action described in this Section 4.1(e).

(f) BROKERS

Except as set forth on Schedule 4.1(f) on the Company Disclosure Schedule, no broker, investment banker or other Person is entitled to receive from the Company, or any party other than Itron, any investment banking, broker's, finder's or similar fee or commission in connection with this Agreement or the transactions contemplated hereby, including any fee for any opinion rendered by any investment banker based upon arrangements made by or on behalf of the Company or the Company Shareholders.

(g) LITIGATION

Except as disclosed in Section 4.1(g) of the Company Disclosure Schedule, (i) there is no claim, suit, action, proceeding or investigation pending or, to the Company's Knowledge, threatened against the Company before or by any court or governmental or nongovernmental department, commission, board, bureau, agency or instrumentality, or any other Person, and (ii) there is no claim, suit, action, proceeding or investigation pending, or to the Company's Knowledge, threatened against the Company that could prevent or materially delay the ability of the Company to consummate the transactions contemplated by the Operative Documents, nor is there any judgment, decree, injunction, rule or Order of any Governmental Entity or arbitrator outstanding against the Company having any such effect. Except as disclosed in Section 4.1(g) of the Company Disclosure Schedule, there are no outstanding or unsatisfied judgments, orders, decrees or stipulations to which the Company is a party, which would have a Material Adverse Effect on the Company.

(h) FINANCIAL STATEMENTS

Attached as Schedule 4.1(h) are the following financial statements: (i) an unaudited balance sheet of the Company as of June 30, 2002; (ii) audited statements of income, cash flow, and changes in shareholders' equity of the Company as of the close of the fiscal year ended December 31, 2001; (iii) an audited balance sheet of the Company as of December 31, 2001; and (iv) an unaudited interim statement of income of the Company for the period from December 31, 2001 to June 30, 2002. The financial statements in (i) through (iv) in the preceding sentence are collectively referred to herein as the "Financial Statements". The Financial Statements described in clauses (ii) and (iii) of the foregoing sentence: (A) are in

accordance with the books and records of the Company; (B) present fairly, in all material respects, the financial position of the Company as of the dates indicated and the results of operations for the periods covered; and (C) have been prepared in accordance with GAAP consistently applied (except for normal and customary year end adjustments and accompanying notes), and the Financial Statement described in clauses (i) and (iv) of the foregoing sentence: (A) are in accordance with the books and records of the Company; (B) present fairly, in all material respects, the financial position of the Company as of the dates indicated and the results of operations for the periods covered; and (C) have been prepared in accordance with the Company's historic accounting practices consistently applied. The Company maintains and will continue to maintain standard systems of accounting established and administered in accordance with GAAP.

(i) TAXES

Except as set forth in Section 4.1(i) of the Company Disclosure Schedule:

(i) the Company has timely filed with the appropriate Governmental Entities all Tax Returns required to be filed by or with respect to it (taking into account validly obtained extensions of time to file such Tax Returns) and has timely paid or deposited all Taxes which are required to be paid or deposited, and no other Taxes are due and payable by the Company with respect to items or periods covered by such Tax Returns (whether or not shown on or reportable on such Tax Returns) or with respect to any period prior to the date of this Agreement;

(ii) each of the Tax Returns filed by the Company is accurate, correct and complete in all material respects;

(iii) the Financial Statements of the Company reflect an adequate reserve for all Taxes payable by the Company for all taxable periods and portions thereof through the date of such Financial Statements whether or not shown as being due on any Tax Returns;

(iv) there are no actions, suits, investigations, audits or claims by any Governmental Entity in progress relating to the Company, nor has the Company received any notice in writing from any Governmental Entity that it intends to conduct such an audit or investigation nor, to the Company's Knowledge, does a Governmental Entity intend to conduct such an audit or investigation;

(v) the Company is not subject to any private letter ruling of the Canada Customs and Revenue Agency or comparable ruling of any other Governmental Entity with respect to Taxes;

(vi) there are no tax liens upon any assets of the Company, except liens arising as a matter of law relating to current Taxes not yet due;

(vii) Except as set forth in Section 4.1(i) of the Company Disclosure Schedule, no audit report has been issued prior to the date of this Agreement (or otherwise with respect to any audit or investigation in progress) relating to Taxes due from or otherwise with respect to the Company;

(viii) the Company has delivered to Itron true and complete copies of (A) any audit reports issued prior to the date of this Agreement relating to Taxes due from or with respect to the Company, and (B) and all Tax Returns for all taxable periods with respect to the Company since fiscal 1998;

(ix) all Taxes that the Company has been or is required by law to withhold or to collect for payment have been duly withheld and collected, and have been paid over to the appropriate Governmental Entities;

(x) the Company has not extended the time (A) within which to file any Tax Return, which Tax Return has not since been filed, or (B) for the assessment or collection of Taxes, which Taxes have not since been paid;

(xi) the Company has not granted to any Person any power of attorney with respect to any Tax matter;

(xii) the Company has never had a permanent establishment in any foreign country, as defined in any applicable Tax treaty or convention between Canada and such foreign country;

(xiii) the Company has not made an election under Section 85 of the Income Tax Act with respect to the acquisition or disposition of any of its assets, which has not been provided to Itron;

(xiv) the Company has not:

(A) acquired or had the use of any Assets and properties from a person with whom it was not dealing at arm's length other than at fair market value;

(B) disposed of any Assets and properties to a person with whom it was not dealing at arm's length for proceeds less than the fair market value thereof; or

(C) discontinued carrying on any business in respect of which non-capital losses were incurred, and any non-capital losses which the Company has are not losses from property or business investment losses;

(xv) with respect to Canadian federal Goods and Services Tax ("GST"):

(A) the Company is registered under registration number 86711 4621;

(B) the Company does not have any deferred obligations or liabilities for GST;

(C) the Company has not made a supply of property or service to a person with whom the Company was not dealing at arm's length for proceeds less that the fair market value thereof, and

(D) all GST required to be collected by the Company has been collected and all GST amounts required to be remitted to the Receiver General for Canada have been remitted;

(xvi) no claim has been made in writing by a Governmental Entity in a jurisdiction where the Company does not file a Tax Return to the effect that the Company is or may be subject to taxation by that jurisdiction, nor, to the Company's Knowledge, has such a non-written claim been made to such effect by a Governmental Entity; and

(xvii) the Company is not a party to, bound by or obligated under any allocation, indemnity, sharing or similar contract or arrangement (whether or not written) with respect to Taxes.

(j) COMPLIANCE WITH LAWS

Except as set forth on Section 4.1(j) of the Company Disclosure Schedule, the Company holds all permits, licenses, variances, exemptions, Orders, franchises and approvals of all Governmental Entities that are required for the operation of the business of the Company as presently conducted and the ownership, operation, lease and holding by the Company of its respective properties and Assets (the "Company Permits"), except where the failure to hold such Company Permits would not, individually or in the aggregate, have a Material Adverse Effect on the Company. To the Company's Knowledge, the Company is in compliance with the terms of the Company Permits and has not violated, failed to comply with, or received any written notice of any alleged violation of or failure to comply with, any statute, law, ordinance, regulation, rule, permit or Order of any Governmental Entity, any arbitration award or any judgment, decree or Order of any court or other Governmental Entity, applicable to the Company or its business, assets or operations.

(k) INTELLECTUAL PROPERTY

Except as set forth on Section 4.1(k) of the Company Disclosure Schedule:

(i) The Company owns or has other rights (which may be rights granted under one or more licenses) in and to, the following as required to conduct its business as now conducted and as proposed to be conducted: all products, prototypes, computer programs (including compilers, source codes and object codes) graphics, devices, techniques, algorithms, methods, processes, procedures, packaging, trade dress, formulae, drawings, designs, flow charts, technical data, databases, file structures, schematics for hardware products, system architecture drawings, product test scripts, test results, design criteria, discoveries, concepts, user interfaces, user manuals, "look and feel," development and other tools, content, inventions (whether or not patentable or copyrightable and whether or not reduced to practice), designs, logos, themes, know-how, concepts and other technology and underlying intellectual property rights that are now or currently are proposed to be, acquired, developed, produced, used, marketed or sold by the Company (collectively, the "Technology-Related Assets") with rights therein sufficient and necessary to operate its business as now conducted and as proposed to be conducted (the "Company Intellectual Property Rights"), which include, without limitation, the items set forth on Section 4.1(k)(i) of the Company Disclosure Schedule. Set forth on

Section 4.1(k)(i) of the Company Disclosure Schedule is a true and complete list of the registered intellectual property of the Company (the "Company Intellectual Property Registrations").

(ii) Section 4.1(k)(ii) of the Company Disclosure Schedule sets forth a list of all Technology Related Assets acquired, developed, produced, used, marketed or sold by the Company during the two years prior to the date of this Agreement, together with all prior versions, predecessors or precursors to such Technology Related Assets (collectively, the "Products"). Solely to the extent that the following can be protected by laws governing intellectual property and proprietary rights, the Company owns all right, title and interest in and to the following (except for any Third Party Technologies (as defined in Section 4.1(k)(iii)), free and clear of all encumbrances: (A) the Products, including any and all codes, techniques, software tools, formats, designs, user interfaces, content and "look and feel" related thereto; (B) any and all updates, enhancements, corrections, modifications, improvements and new releases related to the items set forth in clause (A) above; (C) any and all technology and work in progress related to the items set forth in clauses (A) and (B) above; and (D) all inventions, discoveries, processes, designs, trade secrets, know-how and other confidential or proprietary information related to the items set forth in clauses (A), (B), and (C) above (collectively, the "Technology"). The Technology, excluding the Third Party Technologies (as defined below), is sometimes referred to herein as the "Company Technology."

(iii) Section 4.1(k)(iii) of the Company Disclosure Schedule sets forth a list of all Technology included in or distributed with the Company's Products for which the Company does not own all right, title and interest (collectively, the "Third Party Technologies"), and all license agreements and other contracts pursuant to which the Company has the right to use Third Party Technologies, other than commercially available off-the-shelf third-party Application Software (as defined below), used by the Company, or intended or necessary for use by the Company, with the Company Technology (such license agreements and other contracts, the "Third Party Licenses"), indicating, with respect to each of the Third Party Technologies listed therein, the owner thereof and the Third Party License applicable thereto. The Company has the lawful right to use, (subject to all restrictions expressly set forth in the Third Party Licenses) (A) all Third Party Technology that is incorporated in or used in the development or production of the Company Technology and (B) all other Third Party Technology necessary for the conduct of the Company's business as now conducted and as proposed to be conducted in any written materials furnished by the Company to Itron. Neither the Company nor, to the Company's Knowledge, any other party thereto is in default under any such third-party license, nor to the Company's Knowledge has there occurred any event or circumstance that with notice or the passage of time or both would constitute a default or event of default on the part of the Company or, to the Company's Knowledge, any other party thereto or give to any other party thereto the right to terminate or modify any Third Party License. The Company has not received notice that any party to any Third Party License intends to cancel, terminate, suspend or refuse to renew (if renewable) such Third Party License or to exercise or decline to exercise any option or right thereunder. As used herein, "Application Software" shall mean third-party software applications designed for use by end users and not included in or distributed with the Products; including, without limitation, end-user applications such as word processing and spreadsheet software, as well as operating system software for workstations and networks.

(iv) The Company has not conducted its business, and has not used or enforced (or, to the Company's Knowledge, failed to use or enforce) the Company Intellectual Property Rights, in a manner that would result in the abandonment, cancellation or unenforceability of any item of the Company Intellectual Property Rights, and the Company has not taken (or, to the Company's Knowledge, failed to take) any action that would result in the forfeiture or relinquishment of any Company Intellectual Property Rights or Company Intellectual Property Registrations, in each case where such abandonment, cancellation, unenforceability, forfeiture or relinquishment would have a Material Adverse Effect on the Company. Except as set forth in Section 4.1(k)(iv) of the Company Disclosure Schedule, the Company has not granted to any third party any rights or permissions to use any of the Technology or the Company Intellectual Property Rights. Except pursuant to a written nondisclosure agreement set forth in Section 4.1(i)(iv) of the Company Disclosure Schedule, (A) no third party has received any confidential information relating to the Technology or the Company Intellectual Property Rights and (B) the Company is not under any contractual or other obligation to disclose to any third party any Company Technology or Company Intellectual Property Rights.

(v) (A) The Company has not received any notice or claim (whether written, oral or otherwise) challenging the Company's ownership or rights in the Company Technology or the Company Intellectual Property Rights or claiming that any other Person has any legal or beneficial ownership with respect thereto; (B) all the Company Intellectual Property Rights are legally valid and enforceable without any material qualification, limitation or restriction on their use, and the Company has not received any notice or claim (whether written, oral or otherwise) challenging the validity or enforceability of any of the Company Intellectual Property Rights any where in the world; and (C) to the Company's Knowledge, no other Person is infringing or misappropriating any part of the Company Intellectual Property Rights or otherwise making any unauthorized use of the Company Technology.

(vi) Except as set forth in Section 4.1(k)(vi) of the Company Disclosure Schedule, (A) to the Company's knowledge, the conduct of the business of the Company as now conducted does not infringe, violate or interfere with or constitute an appropriation of any copyright, trade secret, trademark or patent of any Person, and there have been no claims made with respect thereto; and (B) to the Company's knowledge, the use of any of the Company Intellectual Property Rights in the Company's business does not infringe, violate or interfere with or constitute an appropriation of any copyright, trademark, trade secret or patent of any other person or entity, and there have been no claims made with respect thereto. Except as set forth in Section 4.1(k)(vi) of the Company Disclosure Schedule, the consummation of the transactions contemplated hereby will not result in the loss or impairment of any Company Intellectual Property Rights.

(vii) (A) Except as set forth on Section 4.1(k) of the Company Disclosure Schedule, the Company has not disclosed any source code regarding the Technology to any Person other than an employee or a consultant of the Company except pursuant to a written nondisclosure and non-compete agreement as set forth in Section 4.1(k)(vii) of the Company Disclosure Schedule or an independent contractor subject to a written nondisclosure and non-compete agreement; (B) the Company has at all times maintained and diligently enforced commercially reasonable procedures to protect all confidential information relating to the Technology; (C) neither the Company nor any escrow agent is under any contractual or other

obligation to disclose the source code or any other proprietary information included in or relating to the Technology; and (D) the Company has not deposited any source code relating to the Technology into any source code escrows or similar arrangements. If, as disclosed on Section 4.1(k)(vii) of the Company Disclosure Schedule, the Company has deposited any source code to the Technology into source code escrows or similar arrangements, no event has occurred that has or could reasonably form the basis for a release of such source code from such escrows or arrangements.

(viii) Section 4.1(k)(viii) of the Company Disclosure Schedule sets forth a list of all Internet domain names used by the Company in its business (collectively, the "Domain Names"). The Company has, and after the Effective Time of the Amalgamation the Combination Company will have, a valid registration and all material rights (free of any material restriction) in and to the Domain Names, including, without limitation, all rights necessary to continue to conduct the Company's business as it is currently conducted.

(ix) None of the Company's officers, employees, consultants, distributors, agents, representatives or advisors has entered into any agreement relating to the Company's business regarding know-how, trade secrets, assignment of rights in inventions, or prohibition or restriction of competition or solicitation of customers, or any other similar restrictive agreement or covenant, whether written or oral, with any Person other than the Company.

(x) Each current and former employee of, and any consultants and independent contractors with access to the Company Technology or Company Intellectual Property Rights, has entered into a proprietary rights agreement with the Company, pursuant to which such employee, consultant or independent contractor has assigned to the Company all of his, her or its right, title and interest in and to any and all intellectual property, technical information and other information and material developed or worked on by the employee, consultant or independent contractor while employed by or during his, her or its engagement by the Company. As of the Closing, the Company's not aware of any breaches of any such agreements.

(l) NO DEFAULT

The Company is not in default or violation (and no event has occurred which, with notice or the lapse of time or both, would constitute a default or violation) of any term, condition or provision of: (i) its Articles of Incorporation and Bylaws; (ii) any Material Contract or Contractual Document, except any such defaults or violations that would not have a Material Adverse Effect on the Company; or (iii) any Order, writ, injunction, decree, statute, rule or regulation applicable to the Company, except any such defaults or violations that would not have a Material Adverse Effect on the Company. Section 4.1(m) of the Company's Disclosure Schedule sets forth, to the Company's Knowledge, all such defaults and violations as described in subsections (i), (ii), and (iii) set forth above.

(m) TRANSACTIONS WITH AFFILIATES

Except as set forth in Section 4.1(m) of the Company Disclosure Schedule, since March 31, 2002, the Company has not purchased, leased or otherwise acquired any material property or

assets or obtained any material services from, or sold, leased or otherwise disposed of any material property or assets or provided any material services to (except with respect to remuneration for services rendered as a director, officer or employee of the Company in the ordinary course), (i) any employee of the Company, (ii) any Company Shareholder, (iii) any Person, firm or corporation that directly or indirectly controls, is controlled by or is under common control with or by the Company or any officer, director or employee of the Company, or (iv) any member of the immediate family of any of the foregoing Persons.

(n) EMPLOYEE BENEFIT MATTERS

(i) Employee Benefit Plan Listing. Section 4.1(n) of the Company Disclosure Schedule contains a complete and accurate list of all Employee Benefit Plans. The Company does not have any agreement, arrangement, commitment or obligation, whether formal or informal, whether written or unwritten and whether legally binding or not, to create, enter into or contribute to any additional Employee Benefit Plan, or to modify or amend any existing Employee Benefit Plan, except to the extent such modification or amendment is required to be made in order to comply with applicable laws or to retain the tax-qualified or tax-favored status of an Employee Benefit Plan that intends to have such status. There has been no amendment, interpretation or other announcement (written or oral) by the Company or any other Person relating to, or change in participation or coverage under, any Employee Benefit Plan that, either alone or together with other such items or events, could materially increase the expense of maintaining such Employee Benefit Plan (or the Employee Benefit Plans taken as a whole) above the level of expense incurred with respect thereto for the most recent fiscal year included in the Financial Statements. The terms of each Employee Benefit Plan permit the Company to amend or terminate such Employee Benefit Plan at any time and for any reason without penalty and without material liability or expense. None of the rights of the Company under any Employee Benefit Plan will be impaired in any way by this Agreement or the consummation of the transactions contemplated by this Agreement.

(ii) Documents Provided. The Company has delivered to Itron true, correct and complete copies (or, in the case of unwritten Employee Benefit Plans, descriptions) of all Employee Benefit Plans (and all amendments thereto), along with, to the extent applicable to the particular Employee Benefit Plan, copies of the following: (A) the reports filed for the last three years pursuant to the Pension Benefits Standards Act RSBC 1996 c.352 as amended and its Regulations (the "PBSA"), the Insurance Act RSBC 1996 c.226 as amended and its Regulations (the "IA") as applicable; (B) all summary plan descriptions, summaries of material modifications and all employee manuals or communications filed or distributed with respect to such Employee Benefit Plan during the last three years; (C) all contracts and agreements currently in effect (and any amendments thereto) relating to such Employee Benefit Plan, including, without limitation, trust agreements, investment management agreements, annuity contracts, insurance contracts, bonds, indemnification agreements and service provider agreements; (D) the most recent determination letter issued by Canada Customs and Revenue Agency with respect to such Employee Benefit Plan; (E) all written communications relating to the amendment, creation or termination of such Employee Benefit Plan, or an increase or decrease in benefits, acceleration of payments or vesting or other events that could result in liability to the Company since the date of the most recently completed and filed annual report; (F) all correspondence that has been exchanged within the last three years with any governmental

entity or agency relating to such Employee Benefit Plan; (G) samples of all administrative forms currently in use and (H) the most recent registration statement, annual report, actuarial valuation report and prospectus prepared in connection with such Employee Benefit Plan.

(iii) Compliance. With respect to each Employee Benefit Plan: (A) such Employee Benefit Plan is, and at all times since inception has been, maintained, administered, operated and funded in all material respects in compliance with its terms and all applicable requirements of all applicable laws, statutes, Orders, rules and regulations, including, without limitation, PBSA, IA, BC Employment Standards Act RSBC 1996 c. 113 as amended and its Regulations (the "ESA"), BC Human Rights Code RSBC 1996 c. 210 as amended and its Regulations (the "HRC") and the Income Tax Act RSC 1985 c.1 as amended and its Regulations (the "Income Tax Act"); (B) the Company and all other Persons (including, without limitation, all fiduciaries) have, at all times, properly performed all of their duties and obligations (whether arising by operation of law or by contract) under or with respect to such Employee Benefit Plan, including, without limitation, all reporting, disclosure and notification obligations; (C) neither the Company nor any fiduciary of such Employee Benefit Plan has engaged in any transaction or acted or failed to act in a manner that violates the fiduciary requirements of PBSA or IA or any other applicable law; (D) no transaction or event has occurred or is threatened or about to occur (including any of the transactions contemplated in or by this Agreement) that constitutes or could constitute a prohibited transaction under the PBSA, IA, ESA, HRC or the Income Tax Act; and (E) the Company has not incurred, and there exists no condition or set of circumstances in connection with which the Company, the Surviving Company or Itron could incur, directly or indirectly, any material liability or expense (except for routine contributions and benefit payments) under the PBSA, IA, ESA, HRC or the Income Tax Act or any other applicable law, statute, order, rule or regulation, or pursuant to any indemnification or similar agreement, with respect to such Employee Benefit Plan.

(iv) Contributions, Premiums and Other Payments. All contributions, premiums and other payments due or required to be paid to (or with respect to) each Employee Benefit Plan have been timely paid, or, if not yet due, have been accrued as a liability on the Financial Statements. All income taxes and wage taxes that are required by law to be withheld from benefits derived under the Employee Benefit Plans have been properly withheld and remitted to the proper depository.

(v) Multi-Employer Plan. The Company does not maintain or contribute to, and has never maintained or contributed to (or been obligated to maintain or contribute to), a multiemployer plan as defined in the PBSA or a voluntary employees' beneficiary association.

(vi) Post-Employment Benefits. Neither the Company nor any Employee Benefit Plan provides or has any obligation to provide (or contribute toward the cost of) post-employment or post-termination benefits of any kind, including, without limitation, death and medical benefits, with respect to any current or former officer, employee, agent, director or independent contractor of the Company, other than continuation coverage mandated by the PBSA, IA, ESA, HRC and any deferred compensation that is accrued as a current liability on the Financial Statements.

(vii) Suits, Claims and Investigations. There are no actions, suits or claims (other than routine claims for benefits) pending or, to the Company's Knowledge, threatened with respect to (or against the assets of) any Employee Benefit Plan, nor, to the Company's Knowledge, is there a basis for any such action, suit or claim. No Employee Benefit Plan is currently under investigation, audit or review, directly or indirectly, by Canada Customs and Revenue Agency, the Superintendent of Pensions, the Employment Standards Branch, the Human Rights Commission or any other governmental entity or agency, and, to the Company's Knowledge, no such action is contemplated or under consideration by Canada Customs and Revenue Agency, the Superintendent of Pensions, the Employment Standards Branch, the Human Rights Commission or any other governmental entity or agency.

(o) EMPLOYMENT MATTERS

Except as disclosed in Section 4.1(o) of the Company Disclosure Schedule:

(i) the Company is not engaged in any unfair labor practice

and has no liability for any arrears of wages or Taxes or penalties for failure to comply with any such provisions of law;

(ii) there is no labor strike, dispute, slowdown or stoppage pending or, to the Company's Knowledge, threatened against or affecting the Company, and the Company has not experienced any work stoppage or other labor difficulty since its incorporation;

(iii) to the Company's Knowledge, no organizational efforts are presently being made or threatened by or on behalf of any labor union with respect to employees of the Company;

(iv) each employee, officer and consultant of the Company has executed a nondisclosure agreement in the form provided to Itron, and to the Company's Knowledge, no employee (or Person performing similar functions) of the Company is in violation of any such agreement or any employment agreement, non-competition agreement, patent disclosure agreement, invention assignment agreement, proprietary information agreement or other contract or agreement relating to the relationship of such employee with the Company or any other party;

(v) to the Company's Knowledge, are eligible to work and are lawfully employed in Canada; and

(vi) The Company has complied with all provisions of law relating to employment and employment practices, terms and conditions of employment, wages and hours.

(p) ENVIRONMENTAL MATTERS

The Company is not in violation of, and has not violated, in connection with the ownership, use, maintenance or operation of the Company's property (real or personal) or the conduct of its business, any applicable foreign, national, provincial and local statutes, laws, regulations, rules, ordinances, licenses, permits, judgments or orders of any governmental entity relating to environmental matters. The business and operations of the Company are being conducted in compliance in all material respects with all limitations, restrictions, standards and

requirements established under all environmental laws, and no facts or circumstances exist that impose, or, to the Company's Knowledge, with the passage of time, notice, cessation of operations or otherwise will impose, on the Company an obligation under environmental laws to conduct any removal, remediation or similar response action, at present or in the future.

(q) Title to and Condition of Properties

The Company has title to all of the Assets, free and clear of any material liens or restrictions that would preclude their current use, except: (i) liens of current taxes and assessments not yet delinquent; (ii) liens imposed by law and incurred in the ordinary course of business for obligations not yet due to materialmen, warehousemen and the like; and (iii) matters disclosed in Section 4.1(q) of the Company's Disclosure Schedule. The Company does not own any real property and has a valid leasehold interest in its Leased Properties. The Company has complied in all material respects with the terms of all leases to which it is a party and under which it is in occupancy, and all such leases are in full force and effect. The Company's offices, facilities and other structures and the Company's personal property are adequate for the uses to which they are being put and there are no applicable adverse zoning, building or land use codes or rules, ordinances, regulations or other restrictions relating to zoning or land use that currently or, to the Company's Knowledge, may prospectively prevent, or cause the imposition of material fines or penalties as the result of, the use of all or any portion of the real property for the conduct of the business as presently conducted. The Company has received all necessary approvals with regard to occupancy of the real property. The Company has delivered to Itron true and complete copies of all leases, subleases, rental agreements, contracts for sale, tenancies or licenses relating to the real property and personal property.

(r) UNDISCLOSED LIABILITIES

Except as set forth on the Company Disclosure Schedule (and other than those directly incurred in connection with the execution of this Agreement), at the date of the most recent Financial Statements of the Company, the Company had not, and since such date the Company has not, incurred (except in the ordinary course of business), any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise), required by GAAP to be set forth on a financial statement or in the notes thereto or which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect on the Company.

(s) INSURANCE

Section 4.1(s) of the Company Disclosure Schedule accurately lists in reasonable detail all insurance policies maintained by the Company. The Company maintains commercially reasonable levels of (a) insurance on its property (including leased premises) that insures against loss or damage by fire or other casualty and (b) insurance against liabilities, claims and risks of a nature and in such amounts as are normal and customary in the Company's industry for companies of similar size and financial condition. All insurance policies of the Company are in full force and effect, all premiums with respect thereto covering all periods up to and including the date this Agreement have been paid, and no notice of cancellation or termination has been received with respect to any such policy or binder. Such policies or binders are sufficient for compliance with all requirements of law currently applicable to the Company and of all

agreements to which the Company is a party, will remain in full force and effect through the respective expiration dates of such policies or binders without the payment of additional premiums, and will not in any way be affected by, or terminate or lapse by reason of, the transactions contemplated by this Agreement. The Company has not been refused any insurance with respect to its assets or operations, nor has its coverage been limited, by any insurance carrier to which it has applied for any such insurance or with which it has carried insurance.

(t) ABSENCE OF QUESTIONABLE PAYMENTS

Neither the Company nor any director, officer, agent or employee has used any Company funds for improper or unlawful contributions, payments, gifts or entertainment, or made any improper or unlawful expenditures relating to political activity to domestic or foreign government officials or others. The Company has reasonable financial controls to prevent such improper or unlawful contributions, payments, gifts, entertainment or expenditures. Neither the Company nor any current director, officer, agent or employee has accepted or received any improper or unlawful contributions, payments, gifts or expenditures. The Company has at all, times complied, and is in compliance, in all respects with the Foreign Corrupt Practices Act (United States), the Corruption of Foreign Public Officials Act (Canada) and all foreign laws and regulations relating to prevention of corrupt practices and similar matters. The Company has not received any notice that any transaction was improper or unlawful within the meaning of this Section 4.1(t).

(u) BANK ACCOUNTS

Section 4.1(u) of the Company Disclosure Schedule sets forth the names and locations of all banks, trust companies, savings and loan associations and other financial institutions at which the Company maintains safe deposit boxes or accounts of any nature and the names of all Persons authorized to draw thereon, make withdrawals therefrom or have access thereto.

(v) GOVERNMENT CONTRACTS

The Company has never been, nor as a result of the consummation of the transactions contemplated by this Agreement will it be, suspended or debarred from bidding on contracts or subcontracts for any agency of the Canadian government or any foreign government, nor to the Company's Knowledge has such suspension or debarment been threatened or action for suspension or debarment been commenced.

(w) ORDERS; COMMITMENTS; WARRANTIES AND RETURNS

Section 4.1(w) of the Company Disclosure Schedule contains an accurate summary as of December 31, 2001 and as of June 30, 2002 of the Company's total backlog (including all accepted and unfulfilled service contracts) and the aggregate of all outstanding purchase orders issued by the Company (which aggregates include all material contracts or commitments for the purchase by the Company of materials or other supplies). All such sale and purchase commitments were made in the ordinary course of business. Section 4.1(w) of the Company Disclosure Schedule sets forth the warranties of the Company currently made with respect to its business, products and services, and current policies with respect to returns of products in the course of the Company's conduct of the business. Except as set forth on Section 4.1(w) of the

Company Disclosure Schedule, the Company has not made any express warranties in connection with the sale of its products and services. Claims against the Company for warranty costs (individually or in the aggregate) with respect to products and services during each of the last three fiscal years did not exceed CDN$30,000 and there are no outstanding or, to the Company's Knowledge, threatened claims for any such warranty costs that would exceed CDN$15,000 (individually or in the aggregate). As used above, the term "warranty costs" shall mean costs and expenses associated with correcting, returning or replacing defective or allegedly defective products or services, whether such costs and expenses arise out of claims sounding in warranty, contract, tort or otherwise.

(x) Accounts Receivable

All accounts receivable of the Company reflected in the Preliminary Closing Balance Sheet or existing at the time of Closing ("Accounts") represent amounts due for services performed or sales actually made in the ordinary course of business and properly reflect the amounts due. The bad debt reserves and allowances reflected in the Preliminary Closing Balance Sheet are adequate. All Accounts existing and remaining unpaid at the time of Closing are fully collectible by Itron, other than as reflected on the bad debt reserves on the Final Closing Balance Sheet. In the event any of the Accounts are not collected within 180 days of the Closing Date and in the event Jones is requested to and does indemnify Itron for any losses from all or any portion of such uncollected Accounts, then Itron shall cause the Company to transfer to Jones any uncollected Accounts so indemnified, and Jones shall be free to pursue collection of such Accounts in a manner that is nondisruptive to the operation of the business of the Company; provided that Jones at all times will coordinate his collection efforts with Itron.

(y) LIMITED OPERATIONS OF FLORIDACO

Except as set forth on Schedule 4.1(y), Floridaco has never had any operations assets, liabilities or any Material Contracts of any kind whatsoever.

(z) NO LIABILITIES FOR PUBLIC RELATIONS

The Company has no liabilities or obligations whatsoever to TGR Group LLC, ICH Investments Ltd., Largo Flight Limited or any related entities in relation to or in connection with investment relations and public relations activities respecting the Company.

4.2 REPRESENTATIONS AND WARRANTIES OF ITRON AND THE COMBINATION COMPANY

Itron and the Combination Company each represents and warrants to, and agrees with, the Company as herein set forth below. Such representations and warranties shall be deemed to be made as of the date hereof and as of the Closing Date. Disclosure of an item in response to one section of this Agreement shall constitute disclosure and response to every section of this Agreement, notwithstanding the fact that no express cross-reference is made.

(a) ORGANIZATION; STANDING AND POWER

Itron and the Combination Company are each corporations duly organized and validly existing under the laws of the State of Washington and the Yukon Territory, respectively. Each

corporation has the requisite corporate power and authority to own, operate and lease its properties and assets, to carry on its respective business as now being conducted and as currently proposed to be conducted, and to enter into and perform its obligations under the Operative Documents to which Itron or the Combination Company is a party, and to consummate the transactions contemplated hereby and thereby. The Combination Company was formed solely for the purpose of engaging in the transactions contemplated by this Agreement. As of the date of this Agreement, except for obligations or liabilities incurred in connection with the transactions contemplated hereby, the Combination Company has no material assets or liabilities of any type.

(b) COMBINATION COMPANY CAPITAL STRUCTURE

The authorized share capital of the Combination Company consists of an unlimited number of common shares without par value and an unlimited number of Preference Shares without par value. As of the date of this Agreement one (1) common share of the Combination Company is issued and outstanding in the name of 3065719 Nova Scotia Company, a wholly-owned indirect subsidiary of Itron, and no other shares of the Combination Company are issued and outstanding. All outstanding shares of the Combination Company are validly issued, fully paid and nonassessable and not subject to preemptive or other similar rights.

(c) AUTHORITY; NON-CONTRAVENTION

(i) The Board of Directors of Itron and the Combination Company, respectively, have approved the Amalgamation and the Operative Documents and determined the Amalgamation and the Operative Documents to be in the best interests of Itron and the Combination Company and their respective shareholders. Itron and Combination Company, respectively, have the requisite corporate power and authority to enter into the Operative Documents and to consummate the transactions contemplated hereby. The execution and delivery of the Operative Documents by Itron and the Combination Company and the consummation by Itron and Combination Company of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of Itron and Combination Company, respectively. The Operative Documents have been duly and validly executed and delivered by Itron and the Combination Company and constitute valid and binding obligations of Itron and the Combination Company, respectively, enforceable against Itron and the Combination Company in accordance with their terms, except that (x) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws or judicial decisions now or hereafter in effect relating to creditors' rights generally and the application of general principles of equity, and (y) the remedy of specific performance and injunctive relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

(ii) The execution, delivery and performance of the Operative Documents by Itron do not, and the consummation of the transactions contemplated hereby and thereby and compliance with the provisions hereof will not, conflict with, or result in or constitute a violation of or any default (with or without the giving of notice or lapse of time, or both) under, or acceleration or termination of, or the creation in any party of the right to accelerate, terminate or cancel or give rise to a right of termination, cancellation or acceleration with respect to (x) the

Articles of Incorporation or the Bylaws of Itron or the Combination Company or any provision of the comparable organizational documents of any of their respective subsidiaries, or (y) subject to the governmental filings and other matters referred to in the following sentence, any judgment, order, decree, statute, law, ordinance, rule or regulation or arbitration award applicable to Itron or any of its subsidiaries or their respective properties or assets, other than, in the case of clause (y), for any immaterial defaults, conflicts or violations. No consent, approval, Order or authorization of, or registration, declaration or filing with, any Governmental Entity or other Person is required by or with respect to Itron or any of its subsidiaries in connection with the execution and delivery of this Agreement by Itron or the consummation by Itron of the transactions contemplated hereby, except for (A) the filing of such reports under Section 13(a) of the United States Securities and Exchange Act of 1934, as amended, as may be required in connection with this Agreement and the transactions contemplated hereby, (B) the filing of the Amalgamation Filings with and approval by the Registrar of Corporations under the YBCA with respect to the Amalgamation and the filing of the appropriate documents with the relevant authorities of those states and provinces in which Itron and the Combination Company are qualified to do business and such other consents, approvals, Orders, authorizations, registrations, declarations and filings as may be required under the "takeover" laws of various states and provinces and such other consents, approvals, Orders, authorizations, registrations, declarations and filings the failure of which to be obtained or made would not have a Material Adverse Effect on Itron and its subsidiaries, taken as a whole, and (C) any filings required by the TSX Venture Exchange, Nasdaq or the NASD. No vote of the shareholders of Itron is necessary or required to approve or consummate any of the transactions contemplated hereby. The affirmative vote of Itron, as the sole shareholder of the Combination Company, is the only vote of the holders of any class or series of share capital of the Combination Company necessary to approve the transactions contemplated hereby.

(d) BROKERS

Itron has not employed any broker, investment banker or other Person entitled to receive any investment banking, broker's, finder's or similar fee or commission in connection with this Agreement or the transactions contemplated hereby, including any fee for any opinion rendered by any investment banker.

(e) NO IMPLIED WARRANTIES

Itron makes the specific representations and warranties contained in this Agreement; there are no implied representations or warranties.

ARTICLE V
COVENANTS OF THE COMPANY

During the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Closing Date, the Company agrees (except as expressly contemplated by this Agreement or with Itron's prior written consent (with e-mail consent deemed sufficient for such purposes), which will not be unreasonably withheld) that:

5.1 CONDUCT OF BUSINESS

The Company and each of the Subsidiaries shall carry on its business in the usual and ordinary course in substantially the same manner as heretofore conducted and, to the extent consistent with such business, use commercially reasonable efforts consistent with past practice and policies to preserve intact its present business organization, keep available the services of its present officers, consultants, and employees, and preserve its relationships with customers, suppliers, distributors and others having business dealings with it. The Company shall not:

(a) enter into or amend any employment, consulting or agency agreement, or increase the compensation payable or to become payable to its officers, employees, agents or consultants, or grant any severance or termination pay to any officer, director or any employee of the Company;

(b) commence a lawsuit other than (i) for the routine collection of bills, (ii) in such cases where the Company in good faith determines that failure to commence suit would result in a material impairment of a valuable aspect of the Company's business, or (iii) for a breach of this Agreement;

(c) enter into one or more agreements, contracts, or commitments, other than agreements, contracts, or commitments between the Company and its customers, that extend for a period of greater than one (1) year beyond the date of this Agreement or that obligate the Company to pay aggregate gross amounts in excess of CDN$37,500, except for purchases in the ordinary course of business;

(d) enter into one or more agreements, contracts, or commitments with customers, that extend for a period of greater than one (1) year beyond the date of this Agreement or that may produce for the Company proceeds to the Company in amounts in excess of CDN$75,000;

(e) fail, except for adequate replacement policies, to maintain in full force and effect each insurance policy listed on Section 4.1(s) of the Company's Disclosure Schedule;

(f) make any capital expenditures in excess of CDN$37,500;

(g) take any action, other than reasonable and usual actions in the ordinary course of business and consistent with past practice, with respect to accounting methods, policies or procedures (including, without limitation, procedures with respect to the payment of accounts payable and collection of accounts receivable);

(h) make a Tax election or settle or compromise any Tax liability; or

(i) agree to do any of the foregoing.

5.2 DIVIDENDS; CHANGES IN CAPITAL STOCK

The Company shall not: (i) declare or pay any dividends on or make any other distributions in respect to any of its share capital; (ii) split, combine, or reclassify any of its share capital or issue or authorize the issuance of any other securities in respect of, in lieu of, or in

substitution of shares of its share capital; or (iii) repurchase or otherwise acquire, directly or indirectly, any shares of its share capital; provided, however, nothing herein shall prevent the "net exercise" or exercise of any options to acquire Company Common Shares prior to the Closing Date.

5.3 ISSUANCE OF SECURITIES

The Company shall not issue, deliver, or sell, or authorize, propose, or agree or commit to the issuance, delivery, or sale of any shares of its share capital of any class, any securities convertible into its share capital or, any options, warrants, calls, conversion rights, commitments, agreements, contracts, understandings, restrictions, arrangements or rights of any character obligating it to issue any such shares, or other convertible securities; provided, however, nothing herein shall prevent the Company from issuing Company Common Shares on the valid exercise of any existing Company Option or Company Warrant to purchase Company Common Shares.

5.4 GOVERNING DOCUMENTS

The Company shall not amend its Articles of Incorporation or Bylaws.

5.5 NO ACQUISITIONS

The Company shall not acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof.

5.6 NO DISPOSITIONS

The Company shall not sell, lease, license, transfer, mortgage, encumber, or otherwise dispose of any of its assets or cancel, release, or assign any indebtedness or claim, except in the ordinary course of business or in amounts that are not material to the Business Condition of the Company.

5.7 INDEBTEDNESS

The Company shall not incur any indebtedness for borrowed money by way of direct loan, sale of debt securities, purchase money obligation, conditional sale, guarantee, or otherwise, except in the ordinary course of business or in amounts that are not material to the Business Condition of the Company; provided, however, that nothing in this Section 5.7 shall be interpreted to prohibit borrowing by the Company pursuant to its existing lines of credit.

5.8 CLAIMS

The Company shall not pay, discharge or satisfy any claim, liability or obligation or settle any proceeding, except in the ordinary course of business or in amounts that are not material, individually or in the aggregate, to the Business Condition of the Company.

5.9 OTHER ACTIONS

The Company shall not take any action that would cause or constitute a material breach of any of the representations and warranties set forth in Section 4.1 or that would cause any of such representations and warranties to be inaccurate in any material respect.

5.10 CONSENTS

The Company will promptly apply for or otherwise seek, and use reasonable efforts to obtain, all consents and approvals, and make all filings, required with respect to the Company for the consummation of the Amalgamation.

ARTICLE VI
ADDITIONAL AGREEMENTS

6.1 APPROVAL PROCESS

(a) Implementation Steps by the Company

As soon as reasonably practicable following the execution of this Agreement, the Company shall:

(i) subject to Section 6.1(b), convene and hold the Meeting for the purpose of considering the Amalgamation (and for any other proper purpose as may be set out in the notice for such meeting);

(ii) subject to the satisfaction or waiver of the conditions herein contained in favor of each party, send to the Registrar of Corporations under the YBCA, for filing, the Amalgamation Filings, and such other documents as may be required in connection therewith under the YBCA to give effect to the Amalgamation.

(b) Information Statement

(i) As promptly as practicable after the execution and delivery of this Agreement, the Company shall prepare the Information Statement together with any other documents required by the Securities Laws or other applicable Laws in connection with the Amalgamation, and as promptly as practicable after the execution and delivery of this Agreement, the Company shall cause the Information Statement and other documentation required in connection with the Meeting to be sent to each Company Shareholder and filed as required by applicable Laws.

(ii) The Company shall consult with Itron and its counsel and allow each of them to fully participate in the preparation of all documentation to be sent to the Company Shareholders, or to any other Person in obtaining any Company Regulatory Approvals and any other consents and waivers required for consummation of the Amalgamation. All such documentation, including the Information Statement and the Amalgamation Resolution, shall be in form and substance reasonably satisfactory to Itron. Each party shall, in a timely and expeditious manner, subject to the Confidentiality Agreement, provide to the other parties to this

Agreement all information as may be reasonably requested by the other or required by applicable Laws with respect to such party and its businesses and properties for inclusion in the Information Statement, or in any amendments or supplements to the Information Statement, which information shall comply in all material respects with all applicable legal requirements on the date of mailing of the Information Statement and shall not contain any material misrepresentation or material omission (as defined under applicable Securities Laws) and the parties supplying such information shall indemnify and save harmless the other parties and the directors and other officers of the other parties from and against any and all claims, suits, actions, causes of actions, liabilities, damages, costs, charges and expenses of every nature and kind whatsoever for which the other parties, their respective directors or officers may become liable by virtue of such information containing a misrepresentation, provided that such information is included in the Information Statement in the form approved by the supplying party, and this indemnity shall survive the filing of the Amalgamation Filings.

(c) Shareholders' Representatives

(i) Marc Jones and Per Tveita shall be constituted and appointed as agents (the "Shareholders' Representatives") for and on behalf of the Company Shareholders, their respective Affiliates and their respective representatives to give and receive notices and communications, to organize or assume the defense of third-party claims, to agree to, negotiate or enter into settlements and compromises of, and demand arbitration and comply with orders of courts and awards of arbitrators with respect to third-party claims, and to take all actions necessary or appropriate in the judgment of the Shareholders' Representatives for the accomplishment of the foregoing. Such agency may be changed by the holders of at least seventy-five percent (75%) of the Company Common Shares at the Effective Time of the Amalgamation upon not less than ten (10) days' prior written notice to Itron. No bond shall be required of the Shareholders' Representatives, and the Shareholders' Representatives shall receive no compensation for services rendered; provided, however, that they shall be entitled to reimbursement of their expenses in serving as Shareholders' Representatives. Notices or communications to or from the Shareholders' Representatives shall constitute notice to or from the Company Shareholders.

(ii) The Shareholders' Representatives shall not be liable to any of the Company Shareholders for any act done or omitted hereunder as Shareholders' Representatives except to the extent they individually or collectively acted with gross negligence or willful misconduct, and any act done or omitted pursuant to the advice of counsel shall be conclusive evidence that the Shareholders' Representatives did not act with gross negligence or willful misconduct. The Company Shareholders shall severally and proportionately indemnify the Shareholders' Representatives and hold them harmless against any loss, liability or expense incurred without gross negligence or willful misconduct on the part of the Shareholders' Representatives and arising out of or in connection with the acceptance or administration of the duties hereunder.

(iii) The Shareholders' Representatives shall have reasonable access to information about the former Company business and operations and the reasonable assistance of Itron's officers and employees for purposes of performing their duties and exercising their rights hereunder; provided, that the Shareholders' Representatives shall treat confidentially and not

disclose any nonpublic information from or about Itron to anyone (except on a need to know basis to individuals who agree to treat such information confidentially). The Shareholders' Representatives shall be third party beneficiaries of the terms of this Section 6.1(c).

(iv) A unanimous decision, act, consent or instruction of the Shareholders' Representatives shall constitute a decision of all Company Shareholders and shall be final, binding and conclusive upon each such Company Shareholders and Itron may rely upon any written decision, act, consent or instruction of the Shareholders' Representatives as being the decision, act, consent or instruction of the Company Shareholders. Itron is hereby relieved from any liability to any Person for any acts done by them in accordance with such written decision, act, consent or instruction of the Shareholders' Representatives.

(d) Preparation of Filings

(i) Itron and the Company shall cooperate in:

(A) the preparation of any application and the preparation of any other documents reasonably deemed by Itron or the Company, to be necessary to discharge their respective obligations under the Securities Laws in connection with the Amalgamation and the other transactions contemplated hereby; and

(B) the taking of all such action as may be required under the YBCA in connection with the transactions contemplated by this Agreement and the Amalgamation Agreement.

(ii) Each of Itron and the Company shall furnish to the other all such information concerning it and its shareholders as may be required (and, in the case of its shareholders, available to it) for the effectuation of the actions described in Section 6.1(b) and the foregoing provisions of this Section 6.1(d), and each covenants that no information furnished by it (to its knowledge in the case of information concerning its shareholders) in connection with such actions or otherwise in connection with the consummation of the Amalgamation and the other transactions contemplated by this Agreement will contain any untrue statement of a material fact or omit to state a material fact required to be stated in any such document or necessary in order to make any information so furnished for use in any such document not misleading in the light of the circumstances in which it is furnished.

(iii) Itron and the Company shall each promptly notify the other if at any time before or after the Effective Time of the Amalgamation it becomes aware that the Information Statement or any other document described in Section 6.1(b) contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading in light of the circumstances in which they are made, or that otherwise requires an amendment or supplement to the Information Statement or such application or registration statement. In any such event, Itron and the Company shall cooperate in the preparation of a supplement or amendment to the Information Statement or such other document, as required and as the case may be, and, if required, shall cause the same to be distributed to Company Shareholders and/or filed with the applicable Securities Regulatory Authorities.

(iv) The Company shall ensure that the Information Statement complies with all applicable Laws and, without limiting the generality of the foregoing, that the Information Statement does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading in light of the circumstances in which they are made (other than with respect to any information relating to and provided by Itron or any third party that is not an affiliate of the Company). Without limiting the generality of the foregoing, the Company shall ensure that the Information Statement provides the Company Shareholders with information in sufficient detail to permit them to form a reasoned judgment concerning the matters to be placed before them at the Meeting and Itron shall provide all information regarding itself necessary to do so.

6.2 ACCESS TO INFORMATION; CONFIDENTIALITY

(a) Upon reasonable notice, the Company shall afford to the officers, employees, accountants, counsel and other representatives of Itron, reasonable access during normal business hours during the period from the date hereof to the Effective Time of the Amalgamation, to all of its properties, books, contracts, commitments and records. During such period the Company shall furnish promptly to Itron all other information concerning its business, properties and personnel as Itron may reasonably request; provided, however, that notwithstanding the foregoing provisions of this Section 6.2 or any other provision of this Agreement, the Company shall not be required to provide to Itron any information that is subject to a confidentiality agreement and that relates primarily to a party other than the Company. Itron agrees that it will not, and it will cause its respective representatives not to, use any information obtained pursuant to this Section 6.2 for any purpose unrelated to the consummation of the transactions contemplated by this Agreement. That certain Mutual Nondisclosure Agreement, dated as of October 4, 1999 by and between the Company (by Subco) and Itron (the "Confidentiality Agreement"), shall apply with respect to information furnished by the Company and its respective representatives thereunder or hereunder and any other activities contemplated thereby. The parties agree that this Agreement and the transactions contemplated hereby shall not constitute a violation of the Confidentiality Agreement and that the provisions hereof shall supersede all provisions of the Confidentiality Agreement in the event of a conflict.

(b) Neither the Company nor Itron shall issue any statement or communication to the public or press regarding this Agreement or the proposed Amalgamation without the prior written consent and approval of the other party, except as otherwise provided in Section 6.5. If this Agreement is terminated pursuant to Article VIII by either the Company or Itron, the proposed terms of the Amalgamation and all Amalgamation related discussions shall remain confidential and shall not be disclosed to any Person without the consent of the other party except as may be required by law or regulatory authorities.

6.3 COMMERCIALLY REASONABLE EFFORTS; NOTIFICATION

(a) Upon the terms and subject to the conditions set forth in this Agreement, except to the extent otherwise required by United States and Canadian regulatory considerations and otherwise provided in this Section 6.3, each of the parties agrees to use commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other parties in doing, all things necessary, proper or advisable to

consummate and make effective, in the most expeditious manner practicable, the Amalgamation and the other transactions contemplated by this Agreement, including (i) the obtaining of all necessary actions or nonactions, waivers, consents and approvals from Governmental Entities, and the making of all necessary registrations and filings (including filings with Governmental Entities) and the taking of all reasonable steps as may be necessary to obtain an approval or waiver from, or to avoid an action or proceeding by, any Governmental Entity, (ii) the obtaining of all necessary consents, approvals or waivers from third parties, (iii) the defending of any lawsuits or other legal proceedings, whether judicial or administrative, challenging this Agreement or the consummation of the transactions contemplated hereby, including seeking to have any stay or temporary restraining order entered by any court or other Governmental Entity vacated or reversed and (iv) the execution and delivery of any additional instruments necessary to consummate the transactions contemplated by this Agreement. In connection with and without limiting the foregoing, each of the Company and Itron and its respective Board of Directors shall (i) take all action reasonably necessary to ensure that no territorial or provincial takeover statute or similar statute or regulation is or becomes applicable to the Amalgamation and (ii) if any territorial or provincial takeover statute or similar statute or regulation becomes applicable to the Amalgamation, take all action reasonably necessary to ensure that the Amalgamation may be consummated as promptly as practicable on the terms contemplated by this Agreement and otherwise to minimize the effect of such statute or regulation on the Amalgamation.

(b) The Company shall give prompt notice to Itron, and Itron shall give prompt notice to the Company, of (i) any representation or warranty made by it contained in this Agreement becoming untrue or inaccurate in any material respect or (ii) the failure by it to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under this Agreement; provided, however, that no such notification shall affect the representations or warranties or covenants or agreements of the parties or the conditions to the obligations of the parties hereunder.

6.4 FEES AND EXPENSES

Except as provided in Article VIII, all fees and expenses incurred in connection with the Amalgamation, this Agreement and the transactions contemplated hereby shall be paid by the party incurring such fees or expenses, whether or not the Amalgamation is consummated.

6.5 PUBLIC ANNOUNCEMENTS

Itron and the Company will consult with each other before issuing any press release or otherwise making any public statements with respect to the transactions contemplated by this Agreement and shall not issue any such press release or make any such public statement prior to such consultation, except that each party may respond to questions from shareholders and may respond to inquiries from financial analysts and media representatives in a manner consistent with its past practice and each party may make such disclosure as may be required by applicable law or by obligations pursuant to any listing agreement with any securities exchange without prior consultation to the extent such consultation is not reasonably practicable. Except to the extent deemed necessary by Itron to comply with applicable Securities Laws and SEC or Nasdaq disclosure requirements, the parties agree that the initial press release or releases to be issued in

connection with the execution of this Agreement shall be mutually agreed in writing upon prior to the issuance thereof.

6.6 AGREEMENT TO DEFEND

In the event any claim, action, suit, investigation or other proceeding by any Governmental Entity or other Person or other legal or administrative proceeding is commenced that questions the validity or legality of the transactions contemplated hereby or seeks damages in connection therewith, the parties hereto agree to cooperate and use their commercially reasonable efforts to defend against and respond thereto.

6.7 OTHER ACTIONS

Except as contemplated by this Agreement, neither Itron nor the Company shall, nor shall Itron permit any of its subsidiaries to, take or agree or commit to take any action that is reasonably likely to result in any of its respective representations or warranties hereunder being untrue in any material respect or in any of the conditions to the Amalgamation set forth in Article VII not being satisfied.

6.8 THE COMBINATION COMPANY AND THE SURVIVING CORPORATION

Itron shall cause the Combination Company and the Surviving Corporation to approve and adopt, and to perform their respective obligations in accordance with, this Agreement and shall take any and all steps reasonably necessary to cause the Combination Company and the Surviving Corporation to effect the transactions contemplated hereby.

6.9 EMPLOYEE MATTERS

Each of the Employee Benefit Plans of the Company may be terminated prior to or concurrent with the Effective Time of the Amalgamation, including without limitation, the Company Stock Option Plan; provided, however, that the Company's medical plans that are listed on Section 4.1(o) of the Company Disclosure Schedule shall survive the Effective Time of the Amalgamation and may be terminated upon a date determined by Itron in its sole discretion.

6.10 TAX MATTERS

(a) The Company shall prepare or cause to be prepared and file or cause to be filed all Tax Returns that are required to be filed by or with respect to the Company prior to the Closing Date. If Itron files any Tax Returns for periods ending on or prior to the Closing Date, Jones shall remit (or cause to be remitted) from the Indemnification Escrow any Taxes due with respect to such Tax Returns but only to the extent such Taxes have not been reserved and accounted for in the Final NWCA Determination provided for under Section 3.1(f). Itron shall permit Jones to review and comment on each such Tax Return filed by Itron no later than thirty (30) days prior to the filing of such Tax Return and shall make such revisions to such Tax Returns as are reasonably requested by Jones.

(b) Itron shall prepare or cause to be prepared and file or cause to be filed all Tax Returns of the Company for all periods that begin before the Closing Date but end on or after the

Closing Date or for which Tax Returns (for all periods that begin before the Closing Date) are not required to be filed prior to the Closing Date. Jones shall remit (or cause to be remitted) from the Indemnification Escrow any Taxes due with respect to such Tax Returns but only to the extent such Taxes have not been reserved and accounted for in the Final NWCA Determination provided for under Section 3.1(f) and only to the extent that such Taxes have accrued prior to the Closing Date. Itron shall permit Jones to review and comment on each such Tax Return no later than thirty (30) days prior to the filing date of such Tax Return and shall make such revisions to such Tax Returns as are reasonably requested by Jones.

(c) Jones shall cooperate fully, as and to the extent reasonably requested by Itron, in connection with the filing of Tax Returns pursuant to this Section 6.10 and any audit, litigation or other proceeding with respect to Taxes of the Company, and shall make available to Itron and to any Governmental Entity, as reasonably requested in connection with any Tax Return described in Section 6.10, all information relating to any Taxes or Tax Returns of the Company. Such cooperation shall also include, without limitation, the retention and (upon the other party's reasonable request) the provision of records and information that are reasonably relevant to any such Tax Return, audit, litigation or other proceeding.

6.11 ITRON CONSENTS

Itron will promptly apply for or otherwise seek, and use reasonable efforts to obtain, all consents and approvals, including that of its lenders, and make all filings required with respect to the Company for the consummation of the Amalgamation. The Company will, at Itron's request, use reasonable efforts to assist Itron in obtaining all such consents and approvals.

ARTICLE VII
CONDITIONS PRECEDENT

7.1 CONDITIONS TO EACH PARTY'S OBLIGATION TO EFFECT THE AMALGAMATION

The respective obligation of each party to effect the Amalgamation is subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) GOVERNMENTAL ENTITY APPROVALS

All filings required to be made prior to the Effective Time of the Amalgamation with, and all consents, approvals, permits and authorizations required to be obtained prior to the Effective Time of the Amalgamation from, any Governmental Entity in connection with the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby, shall have been made or obtained (as the case may be), except where the failure to obtain such consents, approvals, permits and authorizations could not reasonably be expected to have a Material Adverse Effect on the Company or Itron (assuming the Amalgamation has taken place) or to prevent the consummation of the Amalgamation.

(b) NO INJUNCTIONS OR RESTRAINTS

No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the

consummation of the Amalgamation shall be in effect; provided, however, that the parties hereto shall, subject to Section 6.3, use reasonable efforts to have any such injunction, order, restraint or prohibition vacated.

(c) SECURITIES FILINGS

Itron shall have filed any and all material permits, approvals and consents of securities authorities of any jurisdiction that are necessary so that the consummation of the Amalgamation and the transactions contemplated hereby will be in compliance in all material respects with applicable laws.

(d) CONSENT OF ITRON'S LENDER

Itron shall have either (i) received the consent of its lender under its line of credit to consummate the Amalgamation or (ii) have reasonably determined that its failure to obtain such consent would not have a Material Adverse Effect on Itron.

7.2 CONDITIONS OF ITRON

The obligation of Itron to consummate the Amalgamation is further subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) SUPPORT AGREEMENTS

The Company shall have delivered to Itron at the time of execution of this Agreement copies of Support Agreements each in the form attached hereto as Exhibit F (the "Support Agreement") executed by Jones, Gary H. U. Quan, John H. S. Lam, Robert P. Blanchet, Arthur P. Lo and Per Tveita as to all of the Company Common Shares and convertible securities held by each such person.

(b) COMPLIANCE

The agreements and covenants of the Company to be complied with or performed on or before the Closing Date pursuant to the terms hereof shall have been duly complied with or performed in all material respects and Itron shall have received a certificate dated the Closing Date and executed on behalf of the Company by the chief executive officer and the chief financial officer of the Company to such effect.

(c) CERTIFICATIONS

The Company shall have furnished Itron with a certified copy of a resolution or resolutions duly adopted by the Board of Directors of the Company as of the execution of this Agreement approving this Agreement and consummation of the Amalgamation and the transactions contemplated hereby. A copy of the Company's Articles of Incorporation, certified by the Registrar of Corporations under the YBCA, and Bylaws, certified by the Secretary of the Company, shall be attached to such certificate.

(d) REPRESENTATIONS AND WARRANTIES TRUE

The representations and warranties of the Company contained in this Agreement (other than any representations and warranties made as of a specific date) shall be true and correct in all material respects (except to the extent the representation or warranty is already qualified by materiality and/or the phrase "Material Adverse Effect," in which case it shall be true and correct in all respects) on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of such date, and Itron shall have received a certificate to that effect dated the Closing Date and executed on behalf of the Company by the chief executive officer or the chief financial officer of the Company.

(e) CONSENTS; RELATED MATTERS

Itron shall have received evidence, in form and substance reasonably satisfactory to it, that such licenses, permits, consents (including those consents and prior written approvals for the assignment of each of the Material Contracts, if required), approvals, authorizations, qualifications and Orders of Governmental Entities and other third parties as are reasonably necessary in connection with the transactions contemplated hereby, have been obtained, except such licenses, permits, consents, approvals, authorizations, qualifications and orders which are not, individually or in the aggregate, material to the Surviving Corporation, or the failure of which to have received would not (as compared to the situation in which such license, permit, consent, approval, authorization, qualification or Order had been obtained) have a Material Adverse Effect on the Surviving Corporation, or Itron, or both after giving effect to the Amalgamation.

(f) COMPANY COUNSEL OPINION

Itron shall have received an opinion dated the Closing Date of counsel to the Company, in form and substance reasonably acceptable to Itron and its counsel, which opinion shall address, amongst such matters as are standard in the case of similar transactions, the compliance by the Company with all applicable corporate and securities laws in connection with the transactions contemplated by this Combination Agreement.

(g) NO LITIGATION

There shall not be pending or threatened by any Governmental Entity any suit, action or proceeding (i) challenging or seeking to restrain or prohibit the consummation of the Amalgamation or any of the other transactions contemplated by this Agreement or seeking to obtain from Itron or any of its subsidiaries any damages that are material in relation to Itron and its subsidiaries, taken as a whole, (ii) seeking to prohibit or limit the ownership or operation by the Surviving Corporation of any material portion of the business or assets of the Company, or any of the other transactions contemplated by this Agreement or (iii) seeking to prohibit the Surviving Corporation from effectively controlling in any material respect the business or operations of the Company.

(h) INDEMNIFICATION ESCROW AGREEMENT

Jones and the Indemnification Escrow Agent shall have executed and delivered the Indemnification Escrow Agreement in substantially the form attached hereto as Exhibit A.

(i) ADJUSTMENT ESCROW AGREEMENT

The Adjustment Escrow Agent shall have executed and delivered the Adjustment Escrow Agreement in substantially the form attached hereto as Exhibit B.

(j) TERMINATION OF CERTAIN AGREEMENTS

Any and all rights of refusal, co-sale rights and registration rights (other than pursuant hereto) for the benefit of the holders of Company Common Shares, or stock purchase rights relating to securities of the Company including all Company Options but not including any outstanding Company Warrants of the Company, all as set forth in the Company Disclosure Schedule, shall have terminated.

(k) EXERCISE OR TERMINATION OF COMPANY WARRANTS AND STOCK PURCHASE RIGHTS; CONVERSION OF CONVERTIBLE SECURITIES

Any and all Company Options and stock purchase rights, other than Company Warrants, relating to securities of the Company, and any and all securities and notes convertible at any time into Company Common Shares, vested and unvested, and regardless of restrictions on exercise or conversion, for Company Common Shares shall have been exercised, converted, expired or terminated, as the case may be, immediately prior to the Effective Time of the Amalgamation.

(l) NO MATERIAL ADVERSE EFFECT

There shall not have occurred any change in the business or properties of the Company that would have a Material Adverse Effect on the Company from the date of this Agreement through the Closing Date.

(m) DUE DILIGENCE

The results of Itron's due diligence investigation of the Company, and of the Company Shareholders as it relates to the Company Common Shares, shall be satisfactory in all respects to the Itron and its counsel.

(n) LIMITED DISSENT

Holders of not more than 5% of the issued and outstanding Company Common Shares shall have exercised Dissent Rights and the Company shall have provided to Itron a certificate of the Company certifying on the Effective Date of the Amalgamation the number of Company Common Shares in respect of which the holders thereof have exercised Dissent Rights.

(o) NRC LOAN ACKNOWLEDGEMENT

The National Research Council Canada (the "NRC") shall have executed and delivered to Itron a letter reasonably acceptable to Itron, acknowledging that the Company is not in default, nor will the transactions contemplated by this Combination Agreement constitute a default, under the Industrial Research Assistance Program Repayable Contribution Agreement between the NRC and the Company dated November 6, 2000 or, alternatively, the NRC shall have executed an agreement with the Company reasonably acceptable to Itron, pursuant to which the Company or the Surviving Corporation may prepay in full the loan outstanding.

7.3 CONDITIONS OF THE COMPANY

The obligation of the Company to consummate the Amalgamation is further subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) COMPLIANCE

The agreements and covenants of Itron and the Combination Company to be complied with or performed on or before the Closing Date pursuant to the terms hereof shall have been duly complied with or performed in all material respects and the Company shall have received a certificate dated the Closing Date on behalf of Itron and the Combination Company by the chief executive officer and the chief financial officer of Itron and the Combination Company to such effect.

(b) CERTIFICATIONS

Itron shall have furnished the Company with a certified copy of a resolution or resolutions duly adopted by the Board of Directors or a duly authorized committee thereof of Itron and the Combination Company approving this Agreement and consummation of the Amalgamation and the transactions contemplated hereby, including the issuance, listing and delivery of the shares of Itron Common Shares pursuant hereto.

(c) REPRESENTATIONS AND WARRANTIES TRUE

The representations and warranties of Itron and the Combination Company contained in this Agreement (other than any representations and warranties made as of a specific date) shall be true and correct in all material respects (except to the extent the representation or warranty is already qualified by materiality or the phrase "Material Adverse Effect," in which case it shall be true and correct in all respects) on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of such date, except where the failure of such representation or warranty to be true and correct would not, individually or on an aggregate basis, have a Material Adverse Effect on Itron and its subsidiaries, taken as a whole, and the Company shall have received a certificate to that effect dated the Closing Date and executed on behalf of Itron and the Combination Company by the chief executive officer or the chief financial officer of Itron.

(d) ITRON COUNSEL OPINION

The Company and the Shareholders' Representatives shall have received an opinion dated the Closing Date of counsel to Itron and the Combination Company, in form and substance reasonably acceptable to the Company and its counsel.

(e) NO LITIGATION

There shall not be pending or threatened by any Governmental Entity any suit, action or proceeding (i) challenging or seeking to restrain or prohibit the consummation of the Amalgamation or any of the other transactions contemplated by this Agreement or seeking to obtain from the Company, the Surviving Corporation or any of their respective subsidiaries any damages that are material in relation to the Company, (ii) seeking to prohibit or limit the ownership or operation by the Surviving Corporation or any of its subsidiaries of any material portion of the business or assets of the Company, or any of the other transactions contemplated by this Agreement or (iii) seeking to prohibit the Surviving Corporation or any of its subsidiaries from effectively controlling in any material respect the business or operations of the Company.

(f) NO MATERIAL ADVERSE EFFECT

Since the date of this Agreement for a period through the Closing Date, there shall not have occurred any change in the business or properties of Itron that would have a Material Adverse Effect on Itron.

ARTICLE VIII
TERMINATION, AMENDMENT AND WAIVER

8.1 TERMINATION

This Agreement may be terminated and the Amalgamation abandoned at any time prior to the Effective Time of the Amalgamation pursuant to the following.

(a) By mutual written consent of Itron, the Combination Company and the Company.

(b) By either Itron or the Company:

(i) if any court of competent jurisdiction or any governmental, administrative or regulatory authority, agency or body shall have issued an Order, decree or ruling or taken any other action permanently enjoining, restraining or otherwise prohibiting the Amalgamation; or

(ii) if the Amalgamation shall not have been consummated on or before December 31, 2002; provided, however, that the right to terminate this Agreement under this Section 8.1(b)(ii) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the Effective Time of the Amalgamation to occur on or before such date.

(c) by Itron if the Company (x) breaches in any material respect any of its representations or warranties herein such that the condition set forth in Section 7.2(d) cannot be

satisfied within twenty (20) calendar days following receipt by the Company of notice of breach, or (y) fails to perform in any material respect any of its covenants, agreements or obligations under this Agreement within twenty (20) calendar days following receipt by the Company of notice of breach, if such failures result in or would reasonably be expected to result in a Material Adverse Effect on the Company or the Surviving Company.

(d) by the Company if Itron (x) breaches in any material respect any of its representations or warranties herein such that the condition set forth in Section 7.3(c) cannot be satisfied within twenty (20) calendar days following receipt by Itron of notice of breach, or (y) fails to perform in any material respect any of its covenants, agreements or obligations under this Agreement within twenty (20) calendar days following receipt by Itron of notice of breach, if such failures result in or would reasonably be expected to result in a Material Adverse Effect on Itron.

(e) by the Company to pursue a Superior Proposal (as hereinafter defined), subject to compliance with Section 9.3 and the payment of amounts due under this Article VIII.

(f) by Itron if: (i) the Board of Directors of the Company shall have failed to recommend or shall have withdrawn or modified or changed in a manner adverse to Itron its approval or recommendation of this Agreement or the Amalgamation; or (ii) the Board of Directors of the Company shall have recommended a Takeover Proposal other than that submitted by Itron; or (iii) the Company fails to comply in any respect with Section 9.2 or 9.3; or (iv) a Takeover Proposal other than that submitted by Itron shall have been announced or otherwise become publicly known and the Board of Directors of the Company shall have failed to reconfirm its approval and recommendation of the Amalgamation, or its recommendation that Company Shareholders vote in favor of the Amalgamation Resolution, within five days of the first announcement or other public knowledge of such alternative Takeover Proposal; or (v) through the fault of the Company (whether by commission or omission), this Amalgamation is not submitted by September 30, 2002 for the approval of the Company Shareholders at the Meeting.

8.2 EFFECT OF TERMINATION

In the event of termination of this Agreement by either the Company or Itron as provided in Section 8.1, this Agreement shall forthwith become void and have no effect, without any current or future liability or obligation on the part of Itron or the Company, other than the confidentiality provisions of Sections 6.3, 6.5, 6.6 and the provisions of Article IX. Any termination of this Agreement pursuant to Section 8.1 shall not relieve any party hereto for liabilities related to any breach of any of its representations, warranties, covenants or agreements in this Agreement, which right to recover damages shall be in addition to (and not exclusive of) any other remedy at law or in equity available to any party. Notwithstanding and in addition to the foregoing, if Itron or the Company terminates this Agreement following a breach hereof by the other party, in accordance with Section 8.1(c) or Section 8.1(d), respectively, such breaching party shall reimburse the non-breaching party for all of its reasonable out-of-pocket expenditures incurred in connection with this Agreement.

8.3 AMENDMENT

This Agreement may be amended by the parties at any time before or after any required approval of matters presented in connection with the Amalgamation by the Company Shareholders; provided, however, that after any such approval, there shall be made no amendment that by law requires further approval by such shareholders without the further approval of such shareholders. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

8.4 EXTENSION; WAIVER

At any time prior to the Effective Time of the Amalgamation, the parties may, to the extent legally allowed, (a) extend the time for the performance of any of the obligations or the other acts of the other parties, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto or (c) subject to the proviso of Section 8.3, waive compliance with any of the agreements or conditions contained herein. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights. If, prior to the Closing Date, either party to this Agreement acquires actual knowledge of any specific information inconsistent with the representations and warranties of the other party to this Agreement, such party shall provide such information to the other party; and, if such party nevertheless elects not to terminate this Agreement, then such party shall not be entitled to rely on any representations or warranties which are inconsistent with such information.

8.5 PROCEDURE FOR TERMINATION, AMENDMENT, EXTENSION OR WAIVER

A termination of this Agreement pursuant to Section 8.1, an amendment of this Agreement pursuant to Section 8.3 or an extension or waiver pursuant to Section 8.4 shall, in order to be effective, require in the case of Itron or the Company, action by its respective Board of Directors or the duly authorized designee of such Board of Directors.

ARTICLE IX
NO SOLICITATION; BOARD FIDUCIARY DUTY

9.1 NO SOLICITATION

Prior to the Effective Time of the Amalgamation, the Company agrees that neither it, nor any of its directors, officers, employees, agents or representatives will (i) solicit or initiate any inquiries or the making of any proposal with respect to any merger, consolidation or other business combination involving the Company or the acquisition of any of the assets or share capital of the Company (a "Takeover Proposal") or (ii) negotiate, explore or otherwise engage in discussion with any Person (other than Itron and its representatives) with respect to any Takeover Proposal, or which may reasonably be expected to lead to a Takeover Proposal, or (iii) enter into any agreement, arrangement or understanding with respect to any such Takeover Proposal or which would require it to abandon, terminate or fail to consummate the Amalgamation or any other transaction contemplated by this Agreement; provided, however, that the Company may, in

response to an unsolicited written proposal from a third party regarding a Superior Proposal (as hereinafter defined), furnish information to, negotiate or otherwise engage in discussions with such third party, if the Board of Directors of the Company determines in good faith, after consultation with its financial advisors and based upon advice of outside counsel, that such action is required for the Board of Directors to comply with its fiduciary duties under applicable law. As used herein, a "Superior Proposal" means a bona fide, written and unsolicited proposal or offer made by any Person (or group) (other than Itron or any of its subsidiaries) with respect to a Takeover Proposal on terms which the Board of Directors of the Company determines in good faith, and in the exercise of reasonable judgment, to be more favorable to the Company and its shareholders than the transactions contemplated hereby.

9.2 TERMINATION OF CURRENT DISCUSSIONS

Except as may be required pursuant to the fiduciary duties of the Company's Board of Directors under applicable law, the Company agrees that, as of the date hereof, it and its directors, officers, employees, agents and representatives, shall immediately cease and cause to be terminated any existing activities, discussions or negotiations with any Person (other than Itron and its representatives) conducted heretofore with respect to any Takeover Proposal. The Company shall ensure that the Company Representatives are aware of the provisions of this Article IX, and it shall be responsible for any breach of this Article IX by any such Company Representative. The Company agrees to promptly advise Itron of any inquiries or proposals received by, any such information requested from, or any negotiations or discussions sought to be initiated or continued with, the Company, or any of its directors, officers, employees, agents or representatives, in each case from a Person (other than Itron and its representatives) with respect to a Takeover Proposal, and the terms thereof, including the identity of such third party and the general terms of any financing arrangement or commitment in connection with such Takeover Proposal, and, to update on an ongoing basis or upon Itron's reasonable request, the status thereof, as well as any actions taken or other developments pursuant to this Article IX.

9.3 NOTICE BY THE COMPANY OF SUPERIOR PROPOSAL DETERMINATION

(a) Notwithstanding Sections 9.1 and 9.2, the Company may accept, approve, recommend or enter into any agreement, understanding or arrangement in respect of a Superior Proposal if, and only if: (i) the Company has complied with its obligations under Section 9.2; (ii) five (5) calendar days shall have elapsed from the date on which the Company provided notice under Section 9.2; (iii) the Company's Board of Directors has received written advice from outside counsel that such action is required for the Company's Board of Directors to comply with its fiduciary duties under applicable law, and the Company's Board of Directors has resolved, subject to paragraph (b) of this Section 9.3 to accept, approve or recommend the negotiation of an agreement with respect to such Superior Proposal; and (iv) it has previously or concurrently with the expiration of such five (5) calendar day period will have paid to Itron the reimbursements, if any, payable under Section 8.2 and terminated this Agreement pursuant to Section 8.1(e).

(b) During such five calendar day period, the Company agrees that Itron shall have the right, but not the obligation, to offer to amend the terms of this Agreement. The Board of Directors of the Company will review any offer by Itron to amend the terms of this Agreement in

good faith in order to determine, in its discretion in the exercise of its fiduciary duties, whether Itron's offer upon acceptance by the Company would result in such Superior Proposal ceasing to be a Superior Proposal. If the Board of Directors of the Company so determines, it will enter into an amended agreement with Itron reflecting Itron's amended offer. If the Board of Directors of the Company continues to believe, in good faith and after consultation with financial advisors and outside counsel, that such Superior Proposal remains a Superior Proposal and therefore rejects Itron's amended offer, the Company may terminate this Agreement pursuant to Section 8.1(e); provided, however, that the Company must concurrently pay to Itron the reimbursements, if any, payable to Itron under Section 8.2. The Company acknowledges and agrees that payment of the reimbursements, if any, payable under Section 8.2 is a condition to valid termination of this Agreement under such section and this Section 9.3.

(c) The Company also acknowledges and agrees that each successive modification of any Superior Proposal shall constitute a new Superior Proposal for purposes of the requirement under clause (b) of this Section 9.3 to initiate an additional five calendar days notice period.

9.4 RECOMMENDATION

(a) The Company shall perform all obligations required or desirable to be performed by the Company under this Agreement and shall do all such other acts and things as may be necessary or desirable in order to consummate and make effective, as soon as reasonably practicable, the transactions contemplated in this Agreement and, without limiting the generality of the foregoing, the Company shall, subject to Section 9.3:

(i) recommend in the Information Statement and at the Meeting that Company Shareholders vote in favor of the Amalgamation Resolution, and all public comment by the Company in relation to the Amalgamation shall be made in accordance with Section 6.6 and shall be consistent with and supportive of such recommendation; the Company shall not act in any way that might reasonably be expected to discourage Company Shareholders from voting in favor of the Amalgamation Resolution or that might encourage the Company Shareholders to vote against the Amalgamation Resolution or to exercise their Dissent Rights;

(ii) not withdraw the recommendation that Company Shareholders vote in favor of the Amalgamation Resolution or modify or amend, in a manner adverse to Itron, such recommendation;

(iii) use all reasonable efforts to cause the directors and officers of the Company to: (A) support the Amalgamation; and (B) not dispose of any Company Common Shares held by them before the Amalgamation Resolution has been approved by Company Shareholders or this Agreement is terminated in accordance with its terms, whichever occurs first.

(b) The Company shall promptly reaffirm its recommendation of the Amalgamation by press release and at Itron's option, by supplementary mailing to Company Shareholders, after:

(i) any Takeover Proposal (which is determined by the Company under Section 9.3 not to be a Superior Proposal) is publicly announced or made; or

(ii) Itron increases (by written notice to the Company pursuant to Section 9.3), the consideration offered under this Agreement and the Board of Directors of the Company determines, under Section 9.3, to proceed with the amended Itron offer. Any such press release shall be prepared in accordance with Section 6.6.

ARTICLE X
INDEMNIFICATION

10.1 INDEMNIFICATION BY JONES

Subject to Sections 10.5 and 10.6, Jones shall defend, indemnify, and hold Itron and the Surviving Corporation and their respective directors, officers and other Affiliates harmless from and against, and to reimburse Itron and the Surviving Corporation and their respective directors, officers and other Affiliates with respect to, any and all Losses incurred by them by reason of or arising out of or in connection with: (a) any breach, or any claim (including claims by parties other than Itron) that if true, would constitute a breach of any representation or warranty of the Company contained in this Agreement, and (b) the failure, partial or total, of the Company to perform any agreement or covenant required by this Agreement to be performed by it. The indemnification obligations of Jones pursuant to clauses (a) and (b) of the foregoing sentence shall apply only to the extent that the aggregate Losses incurred in connection therewith exceed One Hundred Thousand American Dollars (US$100,000); provided, however, that the indemnification obligations of Jones shall not be so limited with respect to any Losses incurred in connection with any breach or any claim that, if true, would constitute a breach of a misrepresentation or warranty set forth in Section 4.1(i), 4.1(x) or 4.1(z).

10.2 INDEMNIFICATION BY ITRON

Subject to Section 10.5, Itron agrees to defend, indemnify, and hold harmless Jones from and against, and to reimburse Jones with respect to, any and all Losses incurred by Jones by reason of or arising out of or in connection with: (a) any breach, or any claim (including claims by parties other than the Company or Jones) that if true, would constitute a breach of any representation or warranty of Itron contained in this Agreement, and (b) the failure, partial or total, of Itron to perform any agreement or covenant required by this Agreement to be performed by it, but only to the extent that the aggregate Losses incurred in connection therewith exceed One Hundred Thousand American Dollars (US$100,000).

10.3 CLAIMS BETWEEN THE PARTIES

All claims for indemnification under this Agreement, other than Third Party Claims as described in Section 10.4, shall be resolved in accordance with the following procedures:

(a) NOTICE OF CLAIMS

(i) If an indemnified party reasonably believes that it has incurred or may incur any Losses, it shall deliver a Claim Notice to the indemnifying party with respect to such Losses. The failure to give such notice shall not affect the rights of the indemnified party or parties except to the extent that the indemnifying party is materially prejudiced by such failure.

(ii) When Losses are actually incurred or paid by an indemnified party or on an indemnified party's behalf or otherwise fixed or determined, the indemnified party shall deliver a notice in writing (a "Payment Certificate") to the indemnifying party for such Losses.

(iii) If, after receiving a Payment Certificate, the indemnifying party desires to dispute such claim or the amount claimed in the Payment Certificate, it shall deliver to the indemnified party within thirty (30) days a Counternotice as to such claim or amount. If no such Counternotice is received within the aforementioned thirty (30) day period, the indemnifying party shall be deemed to have accepted liability in respect of the Payment Certificate.

(iv) The parties will use good faith efforts for a thirty (30) day period in an effort to resolve the issue. If, however, within thirty (30) days after receipt or deemed receipt by the indemnified party of the Counternotice to a Payment Certificate, the parties have not reached agreement as to the claim or amount in question, the claim for indemnification shall be decided in accordance with the provisions of Section 10.3(b), unless otherwise specified in this Agreement.

(v) With respect to any Losses for which indemnification is being claimed based upon an asserted liability or obligation to a Person or entity not a party to this Agreement, the obligations of the indemnifying party hereunder shall not be reduced as a result of any action by the indemnified party in responding to such claim if such action is reasonably required to minimize damages, avoid a forfeiture or penalty, or comply with a legal requirement.

(b) RESOLUTION OF CLAIMS

(i) All claims for indemnification under this Agreement, other than Third Party Claims as described in Section 10.4, shall be submitted to final and binding arbitration in Spokane, Washington, which arbitration shall, except as specifically stated herein, be conducted in accordance with the CPR Non-Administered Arbitration Rules (the "CPR Rules") then in effect; provided, however, that the parties agree first to try in good faith to resolve any claim for indemnification that does not exceed Two Hundred Fifty Thousand American Dollars (US$250,000) by mediation under the CPR Mediation Procedure for Business Disputes, before resorting to arbitration; provided, further, that, in the event of an arbitration, the arbitration provisions of this Agreement shall govern over any conflicting rules which may now or hereafter be contained in the CPR Rules.

(ii) The final decision of the arbitrator(s) shall be a reasoned opinion based on applicable law and furnished in writing to the parties and will constitute a conclusive determination of the issue in question, binding upon the parties. The arbitrator(s) shall have the authority to grant any equitable and legal remedies that would be available in any judicial proceeding instituted to resolve a claim for indemnification. Any judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction over the subject matter thereof.

(iii) Any such arbitration shall be conducted before a single arbitrator, who will be compensated for his or her services, as provided below in Section 10.3(b)(v), at a rate to be determined by the parties or pursuant to the CPR Rules, but based upon reasonable hourly or

daily consulting rates for the arbitrator in the event the parties are not able to agree upon his or her rate of compensation.

(iv) The parties shall select the arbitrator by mutual agreement promptly following initiation of arbitration in accordance with the CPR Rules; provided, however, that in the event the parties are unable to reach such agreement within twenty (20) days of initiation, the CPR shall have the authority to select an arbitrator from a list of arbitrators who are partners in a nationally recognized firm of independent certified public accountants from the management advisory services department (or comparable department or group) of such firm or who are partners in a major law firm; provided, however, that such accounting firm or law firm cannot be a firm that has within the last three (3) years rendered, or is then rendering, services to any party hereto or, in the case of a law firm, appeared, or is then appearing, as counsel of record in opposition to any party hereto. Any arbitrator selected to serve shall be qualified by training and experience for the matters for which such arbitrator is designated to serve. If the parties are unable to agree upon one arbitrator, each shall appoint an arbitrator and these appointees shall appoint a third arbitrator, in which case the arbitration determination shall be made by a majority decision of the three selected arbitrators.

(v) The prevailing party in any arbitration shall be entitled to an award of reasonable attorneys' fees and costs, and all costs of arbitration, including those provided for above, will be paid by the losing party, subject in each case to a determination by the arbitrator as to which party is the prevailing party and the amount of such fees and costs to be allocated to such party. Any amounts payable under this subsection will be reimbursed as if the amount of such awarded fees and costs were not contested, and the parties will have no further liability for any amounts payable under this Section 10.3(b) for such fees and costs.

(vi) The arbitrator(s) chosen in accordance with these provisions shall not have the power to alter, amend or otherwise affect the terms of these arbitration provisions or the provisions of this Agreement or any other documents that are executed in connection therewith.

10.4 THIRD PARTY CLAIMS

(a) If an indemnified party receives notice of a demand for arbitration, summons or other notice of the commencement of a proceeding, audit, investigation, review, suit or other action by a third party (any such action a "Third Party Claim") for which it intends to seek indemnification hereunder, it shall give the indemnifying party prompt written notice of such claim (together with all copies of the claim, any process served, and all filings with respect thereto), so that the indemnifying party's defense of such claim under this Section 10.4 may be timely instituted. The indemnifying party under this Article X shall have the right to conduct and control, through counsel (reasonably acceptable to the indemnified party) of its own choosing and at its own cost, any Third Party Claim, compromise, or settlement thereof. Assumption by an indemnifying party of control of any such defense, compromise, or settlement shall not be a waiver by it of its right to challenge its obligation to indemnify the indemnified party. The indemnified party may, at its election, participate in the defense of any such claim, action, or suit through counsel of its choosing, but the fees and expenses of such counsel shall be at the expense of the indemnified party, unless the indemnified party shall have been advised by such counsel that there may be one or more legal defenses available to it that are different from

or in addition to those available to the indemnifying party (in which case, if the indemnified party notifies the indemnifying party in writing that it elects separate counsel at the expense of the indemnifying party, the indemnifying party shall not have the right to assume the defense of such action on behalf of the indemnified party with respect to such defenses).

(b) If the indemnifying party fails to defend diligently any Third Party Claim, then the indemnified party may defend, with counsel of its own choosing, and (i) settle such Third Party Claim and then recover from the indemnifying party the amount of such settlement or of any judgment and the reasonable costs and expenses of such defense, or (ii) litigate the Third Party Claim to the completion of trial or arbitration and then promptly recover from the indemnifying party the reasonable costs and expense of such defense and the amount of the judgment, verdict or award, if any, against the indemnified party.

(c) Notwithstanding Section 10.4(b)(i), the indemnifying party shall not be liable to pay or otherwise satisfy any settlement of a Third Party Claim unless the indemnified party shall have given the indemnifying party written notice of the terms of the proposed settlement at least twenty (20) days prior to entering into such settlement.

(d) Without the consent of the indemnified party, the indemnifying party shall not compromise or settle any Third Party Claim if such settlement involves an admission of liability or wrongdoing on the party of the indemnified party, or a restriction on the operation of the indemnified party's business in the future or would adversely affect the business reputation or Tax liability of the indemnified party. No Third Party Claim may be settled by an indemnifying party without the written consent of the indemnified party, which consent shall not be unreasonably withheld or delayed. No settlement of a Third Party Claim that involves the payment of money only shall be made by any indemnifying party unless the indemnifying party has and reserves a sufficient amount of immediately available funds to provide for such settlement.

(e) Itron, Jones, and the Surviving Corporation shall cooperate in all reasonable respects with each other in connection with the defense, negotiation, or settlement of any legal proceeding, claim, or demand referred to in this Section 10.4.

10.5 TIME LIMIT

The provisions of this Article X (other than the last sentence of Section 10.6(a)) shall apply only to Losses that are incurred or relate to claims, demands, or liabilities that are asserted or threatened before May 15, 2004; provided, however, that: (i) the obligation of either party to indemnify the other and its directors and officers for such claims for which a Claim Notice is given within the time period set forth above shall continue until the final resolution of each such claim; (ii) the limitation set forth in this Section 10.5 shall not apply to any right to indemnification for a failure to perform any agreement or covenant set forth in this Agreement, which shall survive the Effective Time of the Amalgamation indefinitely; and (iii) the representations set forth in Sections 4.1(i), 4.1(x) and 4.1(z) which shall survive until the expiration of the applicable statute of limitations. Furthermore, the right to indemnification for Taxes under Section 10.1 hereof shall survive until the expiration of the applicable statute of limitation for such Taxes.

10.6 LIMITATIONS

(a) The aggregate amount for which Jones shall be liable pursuant to this Article X shall not exceed Five Hundred Thousand American Dollars (US$500,000). Except for Losses based upon fraud or knowing misrepresentation, the sole remedy of Itron for breaches of this Agreement shall be claims made in accordance with and subject to the limitations in this Article X.

(b) The indemnification obligations of Jones under this Article X shall be satisfied by payment to Itron of the obligations by Jones from the Indemnification Escrow.

(c) Whenever Jones delivers to Itron a certified copy of an unconditional release, reasonably acceptable to Itron as to form and content, addressed to the Company (or addressed to the Surviving Corporation after the Closing Date) and executed by each of TGR Group, LLC, ICH Investments Ltd., Largo Flight Limited, and any related entities who have made any claim upon the Company in relation to or in connection with investment relations or public relations activities contracted for or performed in relation to the Company, then the aggregate amount for which Jones shall be liable pursuant to this Article X shall not exceed Three Hundred Twenty-Five Thousand American Dollars (US$325,000).

ARTICLE XI
GENERAL PROVISIONS

11.1 SURVIVAL OF REPRESENTATIONS AND WARRANTIES

The representations and warranties made by the parties to this Agreement and contained herein or in any instrument delivered by the Company or Itron pursuant to this Agreement shall survive until May 15, 2004; provided, however, that the warranties contained in Section 4.1(i) shall survive until the relevant expiration of the statute of limitations period and Sections 4.1(a), 4.1(b), 4.1(c)(i), 4.2(a), 4.2(b) and 4.2(c)(i) shall survive indefinitely.

11.2 NOTICES

All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or by facsimile or sent by overnight courier to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

if to the Company, to: eMobile Data Corporation
10711 Cambie Road, Suite 220
Richmond, B.C. V6X 3G5
Attention: Marc C. Jones
Telephone: (604) 279-9956
Facsimile: (604) 279-9957

with a copy to: Devlin Jensen
Barristers and Solicitors
#2550, 555 West Hastings St.
Vancouver, B.C. V6B 4N5

Attention: Thomas J. Deutsch
Telephone: (604) 684-2550
Facsimile: (604) 684-0916

(b) if to Itron, to: Itron, Inc.
2818 North Sullivan Road
Spokane, WA 99216
Attention: Chief Financial Officer; and
Attention: General Counsel
Telephone: (509) 891-3488
Facsimile: (509) 891-3334

with a copy to: Perkins Coie LLP
1201 Third Avenue, Suite 4800
Seattle, WA 98101-3099
Attention: Andrew Bor
Telephone: (206) 583-8888
Facsimile: (206) 583-8500

(c) if to Marc Jones, to: Marc Jones
4790 Nixon Avenue
Delta, B.C. V4M 1C6
Telephone: (604) 948-0436
Facsimile: (604) 948-0436

with a copy to: Getz Prince Wells
#1810, 1111 West Georgia St.
Vancouver, B.C. V6E 4M3
Attention: Leon Getz, QC
Telephone: (604) 685-6367
Facsimile: (604) 685-9798

11.3 INTERPRETATION

When a reference is made in this Agreement to a Section, Exhibit or Schedule, such reference shall be to a Section of, or an Exhibit or Schedule to, this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the word "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation."

11.4 COUNTERPARTS; FACSIMILE EXECUTION

This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties. In the

event that any signature is delivered by facsimile transmission, such signature shall create a valid and binding obligation of the executing party with the same force and effect as if such facsimile signature page were an original thereof.

11.5 ENTIRE AGREEMENT; NO THIRD-PARTY BENEFICIARIES EXCEPT THE COMPANY SHAREHOLDERS

This Agreement (including the documents and instruments referred to herein) and the Confidentiality Agreement (a) constitute the entire agreement and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof and (b) are not intended to confer upon any Person other than the parties, the Company Shareholders and the Shareholders' Representatives any rights or remedies hereunder, except as otherwise specified herein. This Agreement may not be amended except by a writing signed by all parties consistent with the requirements of Section 8.3.

11.6 GOVERNING LAW; VENUE

This Agreement shall be governed by, and construed in accordance with, the laws of the State of Washington, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof, and venue for any action taken in connection herewith or related hereto shall exclusively reside in the Eastern District of Washington.

11.7 ASSIGNMENT

Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties without the prior written consent of the other parties. This Agreement will be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.

11.8 ENFORCEMENT OF THIS AGREEMENT

The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of the United States, this being in addition to any other remedy to which they are entitled at law or in equity.

11.9 SEVERABILITY

In the event any one or more of the provisions contained in this Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. The parties shall endeavor in good faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions, the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

11.10 TIME OF ESSENCE

Time shall be of the essence in this Agreement.

11.11 EXHIBITS AND SCHEDULES (AVAILABLE UPON REQUEST)

The following exhibits and schedules are incorporated and from part of this Agreement:

Exhibit A	Indemnification Escrow Agreement
Exhibit B	Adjustment Escrow Agreement
Exhibit C	Amalgamation Agreement
Exhibit D	Bylaws of Combination Company
Exhibit E	Amalgamation Resolution
Exhibit F	Support Agreement
Schedule 3.1(f)	Net Working Capital Adjustment Formula

(remainder of page intentionally left blank)

IN WITNESS WHEREOF, Itron, the Combination Company, the Company and Jones have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the date first written above.

ITRON, INC.

By: /s/ David G. Remington

Name: David G. Remington
Title: VP & CFO

EMD COMBINATION, INC.

By: /s/ David G. Remington

Name: David G. Remington
Title: President and Secretary

EMOBILE DATA CORPORATION

By: /s/ Marc C. G. Jones

Name: Marc C. G. Jones
Title: President and CEO

/s/ Marc C. G. Jones

MARC JONES

EXHIBIT 3.1

AMENDED AND RESTATED
ARTICLES OF INCORPORATION

OF

ITRON, INC.

Pursuant to RCW 23B.10.070, the following constitutes Amended and Restated Articles of Incorporation of the undersigned, a Washington corporation.

ARTICLE 1. NAME

The name of this corporation is Itron, Inc.

ARTICLE 2. SHARES

2.1 AUTHORIZED CAPITAL

The total number of shares which the corporation is authorized to issue is 85,000,000, consisting of 75,000,000 shares of Common Stock without par value and 10,000,000 shares of Preferred Stock without par value. The Common Stock is subject to the rights and preferences of the Preferred Stock as hereinafter set forth.

2.2 ISSUANCE OF PREFERRED STOCK IN SERIES

The Preferred Stock may be issued from time to time in one or more series in any manner permitted by law and the provisions of these Articles of Incorporation of the corporation, as determined from time to time by the Board of Directors and stated in the resolution or resolutions providing for the issuance thereof, prior to the issuance of any shares thereof. The Board of Directors shall have the authority to fix and determine and to amend, subject to the provisions hereof, the designation, preferences, limitations and relative rights of the shares of any series that is wholly unissued or to be established. Unless otherwise specifically provided in the resolution establishing any series, the Board of Directors shall further have the authority, after the issuance of shares of a series whose number it has designated, to amend the resolution establishing such series to decrease the number of shares of that series, but not below the number of shares of such series then outstanding.

2.3 DIVIDENDS

The holders of shares of the Preferred Stock shall be entitled to receive dividends, out of the funds of the corporation legally available therefor, at the rate and at the time or times, whether cumulative or noncumulative, as may be provided by the Board of Directors in designating a particular series of Preferred Stock. If such dividends on the Preferred Stock shall be cumulative, then if dividends shall not have been paid, the deficiency shall be fully paid or the dividends declared and set apart for payment at such rate, but without interest on

cumulative dividends, before any dividends on the Common Stock shall be paid or declared and set apart for payment. The holders of the Preferred Stock shall not be entitled to receive any dividends thereon other than the dividends referred to in this section.

2.4 REDEMPTION

The Preferred Stock may be redeemable at such price, in such amount, and at such time or times as may be provided by the Board of Directors in designating a particular series of Preferred Stock. In any event, such Preferred Stock may be repurchased by the corporation to the extent legally permissible.

2.5 LIQUIDATION

In the event of any liquidation, dissolution, or winding up of the affairs of the corporation, whether voluntary or involuntary, then, before any distribution shall be made to the holders of the Common Stock, the holders of the Preferred Stock at the time outstanding shall be entitled to be paid the preferential amount or amounts per share as may be provided by the Board of Directors in designating a particular series of Preferred Stock and dividends accrued thereon to the date of such payment. The holders of the Preferred Stock shall not be entitled to receive any distributive amounts upon the liquidation, dissolution, or winding up of the affairs of the corporation other than the distributive amounts referred to in this section, unless otherwise provided by the Board of Directors in designating a particular series of Preferred Stock.

2.6 CONVERSION

Shares of Preferred Stock may be convertible into Common Stock of the corporation upon such terms and conditions, at such rate and subject to such adjustments as may be provided by the Board of Directors in designating a particular series of Preferred Stock.

2.7 VOTING RIGHTS

Holders of Preferred Stock shall have such voting rights as may be provided by the Board of Directors in designating a particular series of Preferred Stock.

2.8 DESIGNATION OF RIGHTS AND PREFERENCES OF SERIES R PARTICIPATING CUMULATIVE PREFERRED STOCK

The following series of Preferred Stock is hereby designated, which series shall have the rights, preferences and privileges and limitations set forth below:

2.8.1 DESIGNATION OF SERIES R PARTICIPATING CUMULATIVE PREFERRED STOCK

The shares of such series shall be designated the "Series R Participating Cumulative Preferred Stock" (the "Series R Preferred Stock"), without par value. The number of shares initially constituting the Series R Preferred Stock shall be 1,000,000; provided, however, if

more than a total of 1,000,000 shares of Series R Preferred Stock shall be issuable upon the exercise of Rights (the "Rights") issued pursuant to the Rights Agreement dated as of December 11, 2002 between the corporation and Mellon Investor Services LLC, as Rights Agent (the "Rights Agreement"), the corporation's Board of Directors, pursuant to Section 23B.06.020 of the Revised Code of Washington, shall direct by resolution or resolutions that Articles of Amendment be properly executed and filed with the Washington Secretary of State providing for the total number of shares of Series R Preferred Stock authorized for issuance to be increased (to the extent that the Amended and Restated Articles of Incorporation then permits) to the largest number of whole shares (rounded up to the nearest whole number) issuable upon exercise of such Rights. In addition, such number of shares may be decreased by resolution of the Board of Directors; provided, however, that no decrease shall reduce the number of shares of Series R Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the corporation convertible into Series R Preferred Stock.

2.8.2 DIVIDENDS AND DISTRIBUTIONS

(a) Subject to the prior and superior rights of the holders of shares of any other series of Preferred Stock or other class of capital stock of the corporation ranking prior and superior to the shares of Series R Preferred Stock with respect to dividends, the holders of shares of Series R Preferred Stock shall be entitled to receive, when, as, and if declared by the Board of Directors, out of the assets of the corporation legally available therefor, quarterly dividends payable in cash on the last day of each fiscal quarter in each year, or such other dates as the corporation's Board of Directors shall approve (each such date being referred to in this Designation as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or a fraction of a share of Series R Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (i) $0.01 and (ii) the Formula Number (as hereinafter defined) then in effect times the cash dividends then to be paid on each share of Common Stock. In addition, if the corporation shall pay any dividend or make any distribution on the Common Stock payable in assets, securities or other forms of noncash consideration (other than dividends or distributions solely in shares of Common Stock), then, in each such case, the corporation shall simultaneously pay or make on each outstanding whole share of Series R Preferred Stock a dividend or distribution in like kind equal to the Formula Number then in effect times such dividend or distribution on each share of Common Stock. As used in this Designation and in the Rights Agreement, the "Formula Number" shall be 100; provided, however, that if at any time after December 11, 2002 the corporation shall (i) declare or pay any dividend on the Common Stock payable in shares of Common Stock or make any distribution on the Common Stock in shares of Common Stock, (ii) subdivide (by a stock split or otherwise) the outstanding shares of Common Stock into a larger number of shares of Common Stock, or (iii) combine (by a reverse stock split or otherwise) the outstanding shares of Common Stock into a smaller number of shares of Common Stock, then in each such event the Formula Number shall be adjusted to a number determined by multiplying the Formula Number in effect immediately prior to such event by a fraction, the numerator of which is the number of shares of Common Stock that are outstanding immediately after such event and the

denominator of which is the number of shares of Common Stock that are outstanding immediately prior to such event (and rounding the result to the nearest whole number); and provided further, that if at any time after December 11, 2002 the corporation shall issue any shares of its capital stock in a merger, reclassification or change of the outstanding shares of Common Stock, then in each such event the Formula Number shall be appropriately adjusted to reflect such merger, reclassification or change so that each share of Preferred Stock continues to be the economic equivalent of a Formula Number of shares of Common Stock prior to such merger, reclassification or change.

(b) The Corporation shall declare a dividend or distribution on the Series R Preferred Stock as provided in Section 2.8.2(a) immediately prior to or at the same time it declares a dividend or distribution on the Common Stock (other than a dividend or distribution solely in shares of Common Stock); provided, however, that in the event no dividend or distribution (other than a dividend or distribution in shares of Common Stock) shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of $0.01 per share on the Series R Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date. The Corporation's Board of Directors may fix a record date for the determination of holders of shares of Series R Preferred Stock entitled to receive a dividend or distribution declared thereon, which record date shall be the same as the record date for any corresponding dividend or distribution on the Common Stock and which shall not be more than 60 days prior to the date fixed for payment thereof.

(c) Dividends shall begin to accrue and be cumulative on outstanding shares of Series R Preferred Stock from and after the Quarterly Dividend Payment Date next preceding the date of original issue of such shares of Series R Preferred Stock; provided, however, that dividends on such shares that are originally issued after the record date for the determination of holders of shares of Series R Preferred Stock entitled to receive a quarterly dividend on or prior to the next succeeding Quarterly Dividend Payment Date shall begin to accrue and be cumulative from and after such Quarterly Dividend Payment Date. Notwithstanding the foregoing, dividends on shares of Series R Preferred Stock that are originally issued prior to the record date for the determination of holders of shares of Series R Preferred Stock entitled to receive a quarterly dividend on or prior to the first Quarterly Dividend Payment Date shall be calculated as if cumulative from and after the last day of the fiscal quarter (or such other Quarterly Dividend Payment Date as the corporation's Board of Directors shall approve) next preceding the date of original issuance of such shares. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series R Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding.

(d) So long as any shares of Series R Preferred Stock are outstanding, no dividends or other distributions shall be declared, paid or distributed, or set aside for payment or distribution, on the Common Stock unless, in each case, the dividend required by this Section 2.8.2 to be declared on the Series R Preferred Stock shall have been declared.

(e) The holders of shares of Series R Preferred Stock shall not be entitled to receive any dividends or other distributions except as provided in this Designation.

2.8.3 VOTING RIGHTS

The holders of shares of Series R Preferred Stock shall have the following voting rights:

(a) Each holder of Series R Preferred Stock shall be entitled to a number of votes equal to the Formula Number then in effect for each share of Series R Preferred Stock held of record on each matter on which holders of the Common Stock or shareholders generally are entitled to vote, multiplied by the maximum number of votes per share that any holders of the Common Stock or shareholders generally then have with respect to such matter (assuming any holding period or other requirement to vote a greater number of shares is satisfied).

(b) Except as otherwise provided in this Designation or by applicable law, the holders of shares of Series R Preferred Stock and the holders of shares of Common Stock and any other capital stock of the corporation having general voting rights shall vote together as one class for the election of directors of the corporation and on all other matters submitted to a vote of shareholders of the corporation.

(c) Except as provided in this Designation or by applicable law, holders of Series R Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth in this Designation) for authorizing or taking any corporate action.

2.8.4 CERTAIN RESTRICTIONS

(a) Whenever quarterly dividends or other dividends or distributions payable on the Series R Preferred Stock as provided in Section 2.8.2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series R Preferred Stock outstanding shall have been paid in full, the corporation shall not:

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series R Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series R Preferred Stock, except dividends paid ratably on the Series R Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) with the Series R Preferred Stock; provided, however, that the corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series R Preferred Stock; or

(iv) redeem or purchase or otherwise acquire for consideration any shares of Series R Preferred Stock, or any shares of stock ranking on a parity with the Series R Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the corporation's Board of Directors) to all holders of such shares upon such terms as the corporation's Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective Preferred Stock classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(b) The corporation shall not permit any subsidiary of the corporation to purchase or otherwise acquire for consideration any shares of stock of the corporation unless the corporation could, under paragraph (a) of this Section 2.8.4, purchase or otherwise acquire such shares at such time and in such manner.

2.8.5 LIQUIDATION RIGHTS

Upon the liquidation, dissolution or winding up of the corporation, whether voluntary or involuntary, no distribution shall be made to (a) the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series R Preferred Stock unless, prior thereto, the holders of shares of Series R Preferred Stock shall have received an amount equal to the greater of (i) $.01 per share and (ii) the accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, plus an aggregate amount per share equal to the Formula Number then in effect times the aggregate amount to be distributed per share to holders of Common Stock or (b) the holders of shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series R Preferred Stock, except distributions made ratably on the Series R Preferred Stock and all other such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up.

2.8.6 CONSOLIDATION, MERGER, ETC.

In case the corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the then outstanding shares of Series R Preferred Stock shall at the same time be similarly exchanged or changed into an amount per share equal to the Formula Number then in effect times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the

case may be, into which or for which each share of Common Stock is exchanged or changed. In the event both this Section 2.8.6 and Section 2.8.2 appear to apply to a transaction, this Section 2.8.6 will control.

2.8.7 NO REDEMPTION; NO SINKING FUND

(a) The shares of Series R Preferred Stock shall not be subject to redemption by the corporation or at the option of any holder of Series R Preferred Stock; provided, however, that the corporation may purchase or otherwise acquire outstanding shares of Series R Preferred Stock in the open market or by offer to any holder or holders of shares of Series R Preferred Stock.

(b) The shares of Series R Preferred Stock shall not be subject to or entitled to the operation of a retirement or sinking fund.

2.8.8 RANKING

The Series R Preferred Stock shall rank junior to all other series of Preferred Stock of the corporation, unless the corporation's Board of Directors shall specifically determine otherwise in fixing the powers, preferences and relative, participating, optional and other special rights of the shares of such Preferred Stock and the qualifications, limitations and restrictions thereof.

2.8.9 FRACTIONAL SHARES

The Series R Preferred Stock shall be issuable upon exercise of the Rights issued pursuant to the Rights Agreement in whole shares or in any fractional share that is one one-hundredth (1/100th) of a share or any integral multiple of such fraction, and shall entitle the holder, in proportion to such holder's fractional shares, to receive dividends, exercise voting rights, participate in distributions and have the benefit of all other rights of holders of Series R Preferred Stock. In lieu of fractional shares, the corporation, prior to the first issuance of a share or a fractional share of Series R Preferred Stock, may elect to (a) make a cash payment as provided in the Rights Agreement for a fractional share other than one one-hundredth (1/100th) of a share or any integral multiple thereof or (b) issue depository receipts evidencing such authorized fractional share of Series R Preferred Stock pursuant to an appropriate agreement between the corporation and a depository selected by the corporation; provided, however, that such agreement shall provide that the holders of such depository receipts shall have all the rights, privileges and preferences to which they are entitled as holders of the Series R Preferred Stock.

2.8.10 REACQUIRED SHARES

Any shares of Series R Preferred Stock purchased or otherwise acquired by the corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock, without designation as to series until such shares are once

more designated as part of a particular series by the corporation's Board of Directors pursuant to the provisions of Article 2 of the Amended and Restated Articles of Incorporation.

2.8.11 AMENDMENT

None of the powers, preferences and relative, participating, optional and other special rights of the Series R Preferred Stock as provided herein shall be amended in any manner that would alter or change the powers, preferences, rights or privileges of the holders of Series R Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series R Preferred Stock, voting as a separate class.

ARTICLE 3. REGISTERED OFFICE AND AGENT

The name of the registered agent of this corporation and the address of its registered office are as follows:

Lawco of Washington, Inc.
1201 Third Avenue, 40th Floor
Seattle, Washington 98101-3099

ARTICLE 4. PREEMPTIVE RIGHTS

No preemptive rights shall exist with respect to shares of stock or securities convertible into shares of stock of this corporation.

ARTICLE 5. CUMULATIVE VOTING

The right to cumulate votes in the election of Directors shall not exist with respect to shares of stock of this corporation.

ARTICLE 6. DIRECTORS

The number of Directors of this corporation shall be determined in the manner provided by the Bylaws and may be increased or decreased from time to time in the manner provided therein. The Directors of this corporation may be removed only for cause in the manner provided by the Bylaws.

At the 1992 annual election of Directors, the Board of Directors shall be divided into three classes (said classes to be as equal in number as may be possible) with the following classes being elected for the terms set forth below:

CLASS	TERM
Class 1	1 year
Class 2	2 years
Class 3	3 years

Subsequent to the 1992 annual election of Directors, a Director's term shall be three years, and each Director shall serve for the term for which he or she was elected, or until his or her successor shall have been elected and qualified, or until his or her death, resignation or removal from office; provided, however, that despite the expiration of a Director's term, a Director shall continue to serve until his or her successor is elected or until there is a decrease in the authorized number of Directors. Directors need not be shareholders of the corporation or residents of the State of Washington and need not meet any other qualifications.

ARTICLE 7. BYLAWS

The Board of Directors shall have the power to adopt, amend or repeal the Bylaws of this corporation, subject to the power of the shareholders to amend or repeal such Bylaws. The shareholders shall also have the power to amend or repeal the Bylaws of this corporation and to adopt new Bylaws.

ARTICLE 8. AMENDMENTS TO ARTICLES OF INCORPORATION

This corporation reserves the right to amend or repeal any of the provisions contained in these Amended and Restated Articles of Incorporation in any manner now or hereafter permitted by law, and the rights of the shareholders of this corporation are granted subject to this reservation.

ARTICLE 9. LIMITATION OF DIRECTOR LIABILITY

To the full extent that the Washington Business Corporation Act, as it exists on the date hereof or may hereafter be amended, permits the limitation or elimination of the liability of Directors, a Director of this corporation shall not be liable to this corporation or its shareholders for monetary damages for conduct as a Director. Any amendments to or repeal of this Article 9 shall not adversely affect any right or protection of a Director of this corporation for or with respect to any acts or omissions of such Director occurring prior to such amendment or repeal.

Dated: December 11, 2002

/s/ MariLyn R. Blair

MariLyn R. Blair, Secretary

CERTIFICATE ACCOMPANYING

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

OF

ITRON, INC.

Pursuant to RCW 23B.10.070, the undersigned hereby certifies on behalf of Itron, Inc., a Washington corporation (the "Corporation"), as follows:

1. The name of the Corporation is Itron, Inc.

2. The Articles of Incorporation of the Corporation, as amended, are amended and restated in their entirety to read as set forth in the attached Amended and Restated Articles of Incorporation.

3. The amendment was duly adopted by the Board of Directors of the Corporation on November 4, 2002. Shareholder action is not required in connection with this amendment.

These Amended and Restated Articles of Incorporation are executed by the Corporation by its duly authorized officer.

Dated: December 11, 2002.

ITRON, INC.

By: /s/ MariLyn R. Blair

MariLyn R. Blair
Secretary

EXHIBIT 10.2

CHANGE OF CONTROL AGREEMENTS

William L. Brown
Michael A. Cantelme
C.R. Dwiggins, Jr.
Russell N. Fairbanks, Jr.
David C. Godwin
Steven M. Helmbrecht
John W. Hengesh, Jr.
Randi L. Neilson
Robert D. Neilson
LeRoy D. Nosbaum
David G. Remington
Jemima G. Scarpelli
Douglas L. Staker
Russell E. Vanos
Robert W. Whitney
John M. Woolard

EXHIBIT 10.8

INDEMNIFICATION AGREEMENTS

MariLyn R. Blair
Michael B. Bracy
William L. Brown
Michael A. Cantelme
Michael J. Chesser
Ted C. DeMerritt
Deloris R. Duquette
C.R. Dwiggins, Jr.
Larry H. Eggleston
Jon E. Eliassen
Russell N. Fairbanks, Jr.
Thomas S. Foley
Thomas S. Glanville
Steven M. Helmbrecht
John W. Hengesh, Jr.
Randi L. Neilson
Robert D. Neilson
LeRoy D. Nosbaum
Mary Ann Peters
David G. Remington
Jemima G. Scarpelli f/k/a Brennan
Douglas L. Staker
Russell E. Vanos
Krista K. Voss
Stuart Edward White
Robert W. Whitney
Graham M. Wilson
John M. Woolard

EXHIBIT 12

STATEMENT RE: COMPUTATION OF RATIOS

	YEAR ENDED DECEMBER 31,				
	2002	2001	2000	1999	1998
	($ IN THOUSANDS, EXCEPT RATIOS)				
Earnings:					
Pre-tax income (loss)	$ 18,859	$ 21,366	$ 8,538	$ (94,636)	$ (10,045)
Fixed Charges:					
Convertible debt amortization	56	229	259	311	426
Interest capitalized	-	-	-	-	260
Interest expense	2,061	5,112	5,313	6,585	6,399
a) Fixed charges	2,117	5,341	5,572	6,896	7,085
b) Earnings for ratio	20,976	26,707	14,110	(87,740)	(2,960)
Ratios:					
Earnings to fixed charges (b/a)	9.9	5.0	2.5	n/a	n/a

EXHIBIT 21

ITRON DOMESTIC SUBSIDIARIES

Itron, Inc.
Corporate Headquarters
2818 N. Sullivan Rd.
Spokane, WA 99216-1897

P.O. Box 15288, Spokane, WA 99215-5288

Genesis Services Pittsburgh, Inc.
2818 N. Sullivan Rd.
Spokane, WA 99216-1897

Itron International, Inc.
2818 N. Sullivan Rd.
Spokane, WA 99216-1897

Itron Finance, Inc.
2818 N. Sullivan Rd.
Spokane, WA 99216-1897

Itron Connecticut Finance, Inc.
2818 N. Sullivan Rd.
Spokane, WA 99216-1897

Itron Spectrum Holdings, Inc.
2818 N. Sullivan Rd.
Spokane, WA 99216-1897

Regional Economic Research, Inc.
11236 El Camino Real
San Diego, CA 92130-2650

EMD Holding, Inc.
2818 N. Sullivan Rd.
Spokane, WA 99216-1897

eMobile Data, Inc.
3032 Jodi Lane
Palm Harbor, FL 34684

Shadow Combination, Inc.
2818 N. Sullivan Rd.
Spokane, WA 99216-1897

ITRON INTERNATIONAL SUBSIDIARIES

Itron S.A.
Espace St. Germain
30 Avenue du General Leclerc
38208 Vienne, Cedex
FRANCE

Itron Canada, Ltd.
160 Wilkinson Rd.
Brampton, Ontario
CANADA

Itron Limited
Kilnbrook House, Rose Kiln Lane
Reading, Berkshire RG2 0BY
UNITED KINGDOM

Itron de Mexico, S.A de C.V.
Nogal de Castilla 7
Col. Pueblo Nuevo Alto
10640 Mexico, D.F
MEXICO

Itron Australasia Party Limited
Level 5, 33 Erskine Street
Sydney, NSW 2000
AUSTRALIA

Itron Guam, Inc.
2818 N. Sullivan Rd.
Spokane, WA 99216-1897

Itron B.C. Corporation
#220-10711 Cambie Rd.
Richmond, BC V6X3G5

Exhibit 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 333-04685, 333-28933, 333-63147, 333-81925, 333-86581, 333-40356, 333-84196, 333-89966, and 333-97571 of Itron, Inc. on Form S-8 of our report dated February 5, 2003 (March 4, 2003, as to Note 20) (which expresses an unqualified opinion and includes an explanatory paragraph relating to the change in the method of accounting for goodwill and other intangible assets in 2002 and revenues in 2000) appearing in this Annual Report on Form 10-K of Itron, Inc. for the year ended December 31, 2002.

DELOITTE & TOUCHE LLP

Seattle, Washington
March 26, 2003

EXHIBIT 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Itron, Inc. (the Company) on Form 10-K for the year ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, LeRoy D. Nosbaum, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ LeRoy D. Nosbaum
- ----------
LeRoy D. Nosbaum
Chairman of the Board and Chief Executive Officer
March 27, 2003

EXHIBIT 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Itron, Inc. (the Company) on Form 10-K for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, David G. Remington, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ David G. Remington
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David G. Remington
Vice President and Chief Financial Officer
March 27, 2003